

**GATEWAY SCIENCE ACADEMY
OF SAINT LOUIS**

**FINANCIAL STATEMENTS
TOGETHER WITH AUDITORS' REPORT**

For The Year Ended June 30, 2016

TABLE OF CONTENTS

| | |
|--|----|
| INDEPENDENT AUDITORS' REPORT | 4 |
| FINANCIAL STATEMENTS | |
| Statement of Financial Position – Modified Cash Basis..... | 7 |
| Statement of Activities – Modified Cash Basis | 8 |
| Statement of Cash Flows – Modified Cash Basis..... | 9 |
| Statement of Functional Expense – Modified Cash Basis | 10 |
| Notes to Financial Statements..... | 11 |
| SUPPLEMENTARY INFORMATION | |
| Balance Sheet – Governmental Funds – Modified Cash Basis..... | 20 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Financial Position – Modified Cash Basis..... | 21 |
| Statement of Receipts, Disbursements and Changes in Fund Balances – Governmental Funds – Modified Cash Basis | 22 |
| Reconciliation of the Statement of Receipts, Disbursements and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Modified Cash Basis | 23 |
| Schedule of Receipts Collected by Source | 24 |
| Schedule of Disbursements Paid by Object | 25 |
| Schedule of Selected Statistics..... | 26 |
| Schedule of Expenditures of Federal Awards..... | 28 |
| INTERNAL CONTROL AND COMPLIANCE | |
| Independent Accountants' Report on Management's Assertions About Compliance with Specified Requirements of Missouri Laws and Regulations | 31 |

TABLE OF CONTENTS

INTERNAL CONTROL AND COMPLIANCE (continued)

| | |
|---|----|
| Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 32 |
| Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance | 34 |
| Summary Schedule of Findings and Questioned Costs | 37 |
| Schedule of Prior Audit Findings | 38 |



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

We have audited the accompanying financial statements of Gateway Science Academy of Saint Louis (a non-profit organization), which comprise the modified cash basis statement of financial position as of June 30, 2016, and the related statements of activities, cash flows, and functional expenses – modified cash basis for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note B; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

To the Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy'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 the effectiveness of the Academy'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 modified cash basis financial position of Gateway Science Academy of Saint Louis, as of June 30, 2016, and the results of its operations and its cash flows – modified cash basis for the year then ended in conformity with the basis of accounting described in Note B.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2016, on our consideration of Gateway Science Academy of Saint Louis' 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 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 Gateway Science Academy of Saint Louis' internal control over financial reporting and compliance.

To the Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The data contained under Supplementary Information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Audits*, 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.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
October 7, 2016

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
STATEMENT OF FINANCIAL POSITION – MODIFIED CASH BASIS
June 30, 2016

ASSETS

Current Assets

| | |
|---------------------------|------------------|
| Cash and cash equivalents | \$ 1,352,592 |
| TOTAL CURRENT ASSETS | <u>1,352,592</u> |

Property and Equipment

| | |
|--------------------------|------------------|
| Non-depreciable | |
| Construction in progress | 373,411 |
| Depreciable | |
| Capital assets, net | <u>4,728,872</u> |
| TOTAL ASSETS | <u>6,454,875</u> |

LIABILITIES

Current Liabilities

| | |
|---------------------------------|----------------|
| Accrued expenses | 111,820 |
| Current portion of note payable | <u>212,255</u> |
| TOTAL CURRENT LIABILITIES | 324,075 |

Long-Term Liabilities

| | |
|------------------------------------|------------------|
| Note payable, less current portion | <u>3,384,698</u> |
| TOTAL LIABILITIES | <u>3,708,773</u> |

Net Assets

| | |
|--------------|----------------------------|
| Unrestricted | <u><u>\$ 2,746,102</u></u> |
|--------------|----------------------------|

See accompanying notes.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
For the Year Ended June 30, 2016

SUPPORT AND REVENUE:

| | |
|---------------------------|------------------|
| Local | \$ 1,459,655 |
| State | 9,915,631 |
| Federal | <u>1,163,625</u> |
| TOTAL SUPPORT AND REVENUE | 12,538,911 |

EXPENSES:

| | |
|---|-------------------|
| Instruction | 7,656,856 |
| Student services | 53,746 |
| Instructional staff support | 66,218 |
| Building level administration | 447,226 |
| General administration and central services | 1,317,552 |
| Operation of plant | 1,380,687 |
| Food service | 354,614 |
| Community service | 7,852 |
| Interest | 232,602 |
| Depreciation | <u>634,806</u> |
| TOTAL EXPENSES | <u>12,152,159</u> |

INCREASE IN NET ASSETS 386,752

| | |
|-------------------------------|----------------------------|
| Net Assets, beginning of year | <u>2,359,350</u> |
| Net Assets, end of year | <u><u>\$ 2,746,102</u></u> |

See accompanying notes.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|--------------|
| Increase in net assets | \$ 386,752 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | |
| Depreciation | 634,806 |
| Changes in: | |
| Accrued expenses | <u>4,390</u> |

| | |
|--|-----------|
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,025,948 |
|--|-----------|

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|---------------------------------------|------------------|
| Acquisition of property and equipment | <u>(442,036)</u> |
|---------------------------------------|------------------|

| | |
|--|-----------|
| NET CASH (USED) BY INVESTING ACTIVITIES | (442,036) |
|--|-----------|

CASH FLOWS FROM FINANCING ACTIVITIES:

| | |
|-------------------------------------|------------------|
| Principal payments on notes payable | <u>(187,924)</u> |
|-------------------------------------|------------------|

| | |
|--|------------------|
| NET CASH (USED) BY FINANCING ACTIVITIES | <u>(187,924)</u> |
|--|------------------|

| | |
|----------------------|---------|
| NET INCREASE IN CASH | 395,988 |
|----------------------|---------|

| | |
|--|----------------|
| CASH AND CASH EQUIVALENTS, Beginning of year | <u>956,604</u> |
|--|----------------|

| | |
|--|----------------------------|
| CASH AND CASH EQUIVALENTS, End of year | <u><u>\$ 1,352,592</u></u> |
|--|----------------------------|

SUPPLEMENTAL DISCLOSURE

| | |
|---------------|--------------------------|
| Interest paid | <u><u>\$ 232,602</u></u> |
|---------------|--------------------------|

See accompanying notes.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
 STATEMENT OF FUNCTIONAL EXPENSES – MODIFIED CASH BASIS
 For the Year Ended June 30, 2016

| | Program Services | Support Services | |
|---------------------------|---------------------|---------------------------|----------------------|
| | Charter School | Management and General | Total |
| Salaries | \$ 4,894,472 | \$ 469,631 | \$ 5,364,103 |
| Employee Benefits | 1,560,438 | 57,875 | 1,618,313 |
| Purchased Services | 1,854,502 | 1,452,675 | 3,307,177 |
| Supplies | 861,934 | 133,224 | 995,158 |
| Depreciation | 571,325 | 63,481 | 634,806 |
| Interest and fees | 232,602 | - | 232,602 |
| TOTAL FUNCTIONAL EXPENSES | <u>\$ 9,975,273</u> | <u>\$ 2,176,886</u> | <u>\$ 12,152,159</u> |

See accompanying notes.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A – ORGANIZATION

Gateway Science Academy of Saint Louis (the “Academy”) is a Missouri not-for-profit corporation. The purpose of the Academy is to operate a Charter School established within the boundaries of the Saint Louis, Missouri School District. The Academy is legally separate from the Saint Louis, Missouri School District and is not financially accountable to it.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements are presented in accordance with ASC 958-205 (formerly Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-For-Profit Organization”). Under ASC 958-205, the Academy is required to report information regarding its assets and net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Academy does not have temporarily restricted net assets or permanently restricted net assets as of June 30, 2016.

Basis of Accounting

The Academy has elected to present its financial statements on the modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Basis of accounting is a reference to when financial events are recorded, such as timing of recognizing receipts, disbursements, and their related assets and liabilities. Under the modified cash basis of accounting, receipts and disbursements and the related assets are recorded when they result from cash transactions. The modification to cash basis relates to the presentation of capital assets and related depreciation, payroll liabilities, and long-term debt.

Property and Equipment

Depreciation of property and equipment is calculated on the straight-line basis over the estimated useful lives of the assets. These assets have been recorded at historical cost. It is the policy of the Academy to capitalize expenditures for equipment, furniture and fixtures in excess of \$1,000 per item.

Compensated Absences

Vacation time, personal business days, and sick leave are considered as expenses in the year paid.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of Donor Restrictions

Contributions are recognized when they are unconditionally received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. If a restriction is fulfilled in the same time period in which the contribution is received, the Academy reports the support as unrestricted.

Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting described above 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 statement of cash flows, the Academy defines its cash and equivalents to include only cash in demand deposits.

Income Taxes

On June 11, 2012, the Academy was notified by the Internal Revenue Service (IRS) that their exempt status had been revoked due to the failure to file IRS Form 990s for three years. The revocation was retroactive to November 15, 2011. On June 25, 2012, the Academy submitted a request for retroactive reinstatement of exempt status and was granted reinstatement as of that date. As of October 7, 2016, the Academy has not received IRS approval of the retroactive portion of the reinstatement request. Effective June 26, 2012, the Academy was exempted from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Accounting for Uncertainty in Income Taxes

The Academy adopted the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income taxes* ["FIN 48"]) on July 1, 2013. Under FIN 48, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of FIN 48 had no impact on the Academy's financial statements. The Academy does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. No interest or penalties were accrued as of June 30, 2016, as a result of the adoption of FIN 48.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the Academy does not receive approval of its request for retroactive reinstatement, it will be responsible for taxes at the normal corporate rates. At the due date for filing a corporate tax return for a June 30, 2012, year end, the Academy chose to not file a Form 1120 return as a for-profit corporation and pay estimated taxes and no extension request was filed. At that date, the estimated corporate tax due was estimated at \$173,597 for federal taxes and \$28,252 for State of Missouri taxes for the period of November 15, 2011, to June 30, 2012. As no returns or extensions were filed, if retroactive reinstatement is not approved, the Academy will be responsible for the corporate taxes due in addition to penalties relating to failure to file and failure to pay at various federal and state rates. On February 9, 2015, the Academy was notified of the removal of \$50,000 in penalties relating to the June 30, 2010, Form 990. While this can be viewed as progress toward retroactive reinstatement, the Academy had not been notified officially regarding retroactive reinstatement as of October 7, 2016.

Subsequent Events

Management has evaluated subsequent events through October 7, 2016, the date the financial statements were available to be issued.

NOTE C – RETIREMENT PLAN

The Academy contributes to The Public School Retirement System of the School District of Saint Louis, Missouri a cost-sharing multiple-employer defined benefit pension plan. Participation is mandatory for employees of the Saint Louis, Missouri Public School District, the Saint Louis Public Library, and the Public School Retirement System. The Retirement System provides service and disability retirement benefits to full-time employees and optional benefits to members' beneficiaries. Positions covered by The Retirement System are also covered by Social Security. The Retirement System is administered by a twelve member Board of Trustees. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: The Public School Retirement System of the School District of Saint Louis, Missouri, 3641 Olive Street, Suite 300, Saint Louis, Missouri, 63108, or by calling 1-314-534-7444.

The Retirement System members are required to contribute 5% of their annual covered salary and the Academy is required to contribute an amount of 15.73%. The contribution requirements of members and the school are established, and may be amended, by the Board of Trustees. The Academy's contributions to the system for the year ended June 30, 2016, were \$1,025,685, equal to the required contributions.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE D – OPERATING LEASES

On June 1, 2010, the Academy entered into a five-year lease with the St. Louis City Catholic Church Real Estate Corporation, a Missouri nonprofit corporation. As part of the lease agreement, the Academy pays a base rent of \$13,000 each month plus operating expenses of the leased facility, including all costs associated with the use, maintenance, financing, or repair of the property and all utilities, insurance, periodic capital replacement reserve amounts and management fees through June 30, 2015. A renewal option for five additional years at \$11,000 per month was exercised six months prior to the expiration of the lease, to extend the agreement to July 31, 2020. The amount the Academy recognized in rent expense for the fiscal year ended June 30, 2016, was \$121,000.

On May 14, 2013, the Academy entered into a fifteen-year lease with 6651 Gravois, LLC, and New Plan Learning, Inc. As part of the lease agreement, the Academy pays a base rent each month plus tax, insurance, and operating expenses of the leased facility, including all costs associated with the use, maintenance, financing, or repair of the property and all utilities, insurance, periodic capital replacement reserve amounts and management fees. There is a renewal option for two successive extension periods of five additional years each. The first period base rent is \$32,800 per month with increases annually equaling 103% of the base rent of the immediately preceding lease year, rounded to the nearest whole dollar. This agreement is for the period of August 1, 2013 to July 31, 2018. The amount the Academy recognized in rent expense for this lease for the fiscal year ended June 30, 2016, was \$406,911.

Future base rent commitments for these leases at June 30, 2016, are as follows:

| Year Ending June 30, | New Plan Learning | St. Louis City Catholic Church Real Estate Corp. |
|-------------------------|----------------------|--|
| 2017 | \$ 429,053 | \$ 132,000 |
| 2018 | 441,925 | 132,000 |
| 2019 | 455,183 | 132,000 |
| 2020 | 468,838 | 132,000 |
| 2021 | 482,903 | - |
| 2022 | 497,391 | - |
| 2023 | 512,312 | - |
| 2024 | 527,682 | - |
| 2025 | 543,512 | - |
| 2026 | 559,817 | - |
| 2027 | 576,612 | - |
| 2028 | 48,168 | - |
| | <u>\$ 5,543,396</u> | <u>\$ 528,000</u> |

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE E – EDUCATION MANAGEMENT AGREEMENT

Effective July 1, 2015, the Academy entered into an agreement with Concept Schools, an Illinois non-profit corporation to provide management and operating services to the Academy at a rate of 10% of School’s total annual revenue, including grant funding, to the extent that such grants do not prohibit the transfer of grant funds to a third party in the form of a management fee.

The agreement will continue until the end of the charter agreement and automatically renew for additional, successive terms commensurately with the charter agreement unless one party notifies the other party on or before April 1, prior to the expiration of the then-current term, of its intention not to renew the agreement. During the year, the Academy disbursed \$1,098,714 to Concept Schools.

NOTE F – CLAIMS AND ADJUSTMENTS

The Academy participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Disbursements financed by grants are subject to audit by the appropriate grantor government. As of June 30, 2016, significant amounts of grant disbursements have not been audited by grantor governments, but the Academy believes that disallowed disbursements, if any, based on subsequent audits will not have a material effect on the overall financial position of the Academy.

NOTE G – NOTES PAYABLE

On September 9, 2013, the Academy entered into a five-year financing agreement with IFF in the amount of \$1,000,000 to finance the acquisition of tangible property. As part of the financing agreement, the Academy pays a base payment of \$8,039 each month, which includes interest at a rate of 5.25%. At October 1, 2018, the Academy will have a final payment of principal and interest of \$757,284. Future base payments for this agreement at June 30, 2016, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|-------------------|
| 2017 | \$ 51,792 | \$ 44,676 | \$ 96,468 |
| 2018 | 54,577 | 41,891 | 96,468 |
| 2019 | 768,080 | 13,320 | 781,400 |
| | <u>\$ 874,449</u> | <u>\$ 99,887</u> | <u>\$ 974,336</u> |

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE G – NOTES PAYABLE

On September 9, 2013, the Academy entered into a five-year financing agreement with Fifth Third Bank in the amount of \$2,995,000 to finance the acquisition of tangible property. As part of the financing agreement, the Academy pays a monthly principal payment and a variable interest rate OF 3% PLUS THE London Interbank Offer Rate (LIBOR). At September 9, 2018, the Academy will have a final principal payment of \$2,386,100 plus accrued interest. Future base payments for this agreement at June 30, 2016, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|---------------------|-------------------|---------------------|
| 2017 | \$ 153,000 | \$ 84,114 | \$ 237,114 |
| 2018 | 160,000 | 79,114 | 239,114 |
| 2019 | 2,386,100 | 19,128 | 2,405,228 |
| | <u>\$ 2,699,100</u> | <u>\$ 182,356</u> | <u>\$ 2,881,456</u> |

This interest rate is presented at the June 30, 2016, LIBOR rate and will change as LIBOR is adjusted.

On September 13, 2015, the Academy entered into a five-year financing agreement with Toyota Financial Services in the amount of \$35,434 to finance the acquisition of a school vehicle. As part of the financing agreement, the Academy pays a monthly principal and interest payment of \$591 and an interest rate of 0%. Future base payments for this agreement at June 30, 2016, are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|------------------|-------------|------------------|
| 2017 | \$ 7,092 | \$ - | \$ 7,092 |
| 2018 | 7,092 | - | 7,092 |
| 2019 | 7,092 | - | 7,092 |
| 2020 | 2,128 | - | 2,128 |
| | <u>\$ 23,404</u> | <u>\$ -</u> | <u>\$ 23,404</u> |

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE G – NOTES PAYABLE (continued)

The following represents the changes in notes payable for the year ended June 30, 2016:

| | |
|------------------------------|---------------------|
| Notes Payable, June 30, 2015 | \$ 3,784,877 |
| Additions | - |
| Deletions | (187,924) |
| Notes Payable, June 30, 2016 | <u>\$ 3,596,953</u> |

NOTE H – PROPERTY AND EQUIPMENT

The cost and accumulated depreciation of building improvements and equipment were as follows:

| | |
|-----------------------------------|---------------------|
| Depreciable | |
| Building | \$ 902,894 |
| Building improvements | 3,957,478 |
| Improvements other than building | 157,973 |
| Classroom instructional apparatus | 599,388 |
| Equipment | 1,167,318 |
| Vehicles | 35,434 |
| Non-depreciable | |
| Construction in progress | <u>373,411</u> |
| | 7,193,896 |
| Accumulated depreciation | <u>(2,091,613)</u> |
| | <u>\$ 5,102,283</u> |

Depreciation charged to expense for the year ended June 30, 2016, was \$634,806. Depreciation is allocated to management and administration in the amount of \$63,481 and program costs in the amount of \$571,325.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE I – SIGNIFICANT CONCENTRATION OF CREDIT RISK

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates on current vulnerabilities due to certain concentrations. Those matters include the disclosure that the Academy maintains its cash deposits in local banks. From time to time, the balances of the accounts may exceed FDIC insurance limits. Fifth Third Bank has pledged additional security for deposits over FDIC insurance coverage amounts in the form of pledged U.S. Government Securities.

NOTE J – FUNCTIONAL EXPENSES

The Academy has only one program service, which is the operation of a charter school district. For the year ended June 30, 2016, program service expenses were \$9,975,273 and management expenses were \$2,176,886.

NOTE K – OPEN TAX YEARS

The Academy’s informational and tax returns are subject to examination by taxing authorities for a period of 3 years from the date they are filed. As of June 30, 2016, the following tax years are subject to examination:

| Jurisdiction | Open Years for Filed Returns | Return to be filed in 2016 |
|--------------|------------------------------|----------------------------|
| Federal | 2012-2014 | 2015 |
| Missouri | 2012-2014 | 2015 |

SUPPLEMENTARY INFORMATION

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
June 30, 2016

| | General Fund | Special Revenue Fund | Capital Projects Fund | Total |
|---|-------------------|----------------------------|-----------------------------|---------------------|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 349,642 | \$ 1,002,950 | \$ - | \$ 1,352,592 |
| TOTAL ASSETS | <u>\$ 349,642</u> | <u>\$ 1,002,950</u> | <u>\$ -</u> | <u>\$ 1,352,592</u> |
| LIABILITIES AND FUND BALANCE | | | | |
| Current Liabilities | | | | |
| Accrued payroll taxes | \$ 111,820 | \$ - | \$ - | \$ 111,820 |
| Fund Balance | | | | |
| Unassigned | 237,822 | 1,002,950 | - | 1,240,772 |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 349,642</u> | <u>\$ 1,002,950</u> | <u>\$ -</u> | <u>\$ 1,352,592</u> |

NOTE: The supplementary modified cash basis financial statement above has been provided for purposes of reporting to the State of Missouri Department of Elementary and Secondary Education. This statement conforms to the presentation of the Annual Secretary of the Board Report. The modification to cash basis relates only to the presentation of deposits and payroll liabilities.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF
 FINANCIAL POSITION – MODIFIED CASH BASIS
 Year Ended June 30, 2016

The following items reconcile the differences between the Governmental Funds
 Balance Sheet and the Statement of Financial Position - Modified Cash Basis:

| | |
|--|----------------------------|
| Fund balance - total governmental funds | \$ 1,240,772 |
| Assets on the Statement of Financial Position | |
| Governmental capital assets | 7,193,896 |
| Less accumulated depreciation | <u>(2,091,613)</u> |
| | 5,102,283 |
| Liabilities on the Statement of Financial Position | |
| Notes payable | <u>(3,596,953)</u> |
| Net Assets on the Statement of Financial Position | <u><u>\$ 2,746,102</u></u> |

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
For the Year Ended June 30, 2016

| | General Fund | Special Revenue Fund | Capital Projects Fund | Total |
|--|-------------------|----------------------------|-----------------------------|---------------------|
| RECEIPTS | | | | |
| Local | \$ 837,027 | \$ 622,628 | \$ - | \$ 1,459,655 |
| State | 2,860,591 | 6,629,475 | 425,565 | 9,915,631 |
| Federal | 1,163,625 | - | - | 1,163,625 |
| TOTAL RECEIPTS | 4,861,243 | 7,252,103 | 425,565 | 12,538,911 |
| DISBURSEMENTS | | | | |
| Instruction | 1,605,906 | 6,050,950 | - | 7,656,856 |
| Student services | 53,746 | - | - | 53,746 |
| Instructional staff support | 23,227 | 42,991 | - | 66,218 |
| Building level administration | 446,855 | - | - | 446,855 |
| General administration and central services | 592,227 | 725,325 | - | 1,317,552 |
| Operation of plant | 1,228,450 | - | - | 1,228,450 |
| Food service | 354,614 | - | - | 354,614 |
| Community service | 7,852 | - | - | 7,852 |
| Facility acquisition & construction | - | - | 594,273 | 594,273 |
| Debt service - principal | - | - | 188,295 | 188,295 |
| Debt service - interest | - | - | 232,602 | 232,602 |
| TOTAL DISBURSEMENTS | 4,312,877 | 6,819,266 | 1,015,170 | 12,147,313 |
| EXCESS (DEFICIT) OF RECEIPTS OVER DISBURSEMENTS | | | | |
| | 548,366 | 432,837 | (589,605) | 391,598 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in (out) | (589,605) | - | 589,605 | - |
| NET CHANGE IN FUND BALANCE | | | | |
| | (41,239) | 432,837 | - | 391,598 |
| FUND BALANCE, Beginning of year | | | | |
| | 279,061 | 570,113 | - | 849,174 |
| FUND BALANCE, End of year | | | | |
| | <u>\$ 237,822</u> | <u>\$ 1,002,950</u> | <u>\$ -</u> | <u>\$ 1,240,772</u> |

NOTE: The supplementary modified cash basis financial statement above has been provided for purposes of reporting to the State of Missouri Department of Elementary and Secondary Education. This statement conforms to the presentation of the Annual Secretary of the Board Report. The modification to cash basis relates only to the presentation of deposits and payroll liabilities.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
 RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES –
 MODIFIED CASH BASIS
 Year Ended June 30, 2016

The following items reconcile the differences between the Statement of Receipts,
 Disbursements and Changes in Fund Balances of Governmental Funds and the
 Statement of Activities - Modified Cash Basis:

| | |
|---|--------------------------|
| Net change in fund balances - total governmental funds | \$ 391,598 |
| Changes in assets on the Statement of Financial Position | |
| Capital outlay | 442,036 |
| Depreciation | <u>(634,806)</u> |
| | (192,770) |
| Changes in liabilities on the Statement of Financial Position | |
| Notes payable | <u>187,924</u> |
| Increase in Net Assets | <u><u>\$ 386,752</u></u> |

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
SCHEDULE OF RECEIPTS COLLECTED BY SOURCE
For the Year Ended June 30, 2016

| | General Fund | Special Revenue Fund | Capital Projects Fund | Total |
|--------------------------------------|---------------------|----------------------------|-----------------------------|----------------------|
| LOCAL | | | | |
| Sales tax | \$ 451,883 | \$ 622,628 | \$ - | \$ 1,074,511 |
| Food service | 70,596 | - | - | 70,596 |
| Student activities | 156,945 | - | - | 156,945 |
| Community services | 78,467 | - | - | 78,467 |
| Other | 79,136 | - | - | 79,136 |
| TOTAL LOCAL | <u>837,027</u> | <u>622,628</u> | <u>-</u> | <u>1,459,655</u> |
| STATE | | | | |
| Basic formula | 2,857,581 | 6,629,475 | - | 9,487,056 |
| Basic formula - classroom trust fund | - | - | 425,565 | 425,565 |
| Food service | 3,010 | - | - | 3,010 |
| TOTAL STATE | <u>2,860,591</u> | <u>6,629,475</u> | <u>425,565</u> | <u>9,915,631</u> |
| FEDERAL | | | | |
| IDEA | 157,180 | - | - | 157,180 |
| Food service | 283,963 | - | - | 283,963 |
| ESEA, Title I | 511,169 | - | - | 511,169 |
| ESEA, Title II, Part A | 211,313 | - | - | 211,313 |
| TOTAL FEDERAL | <u>1,163,625</u> | <u>-</u> | <u>-</u> | <u>1,163,625</u> |
| TOTAL RECEIPTS | <u>\$ 4,861,243</u> | <u>\$ 7,252,103</u> | <u>\$ 425,565</u> | <u>\$ 12,538,911</u> |

The Schedule of Receipts by Source agrees to the Annual Secretary of the Board Report.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
 SCHEDULE OF DISBURSEMENTS PAID BY OBJECT
 For the Year Ended June 30, 2016

| | General Fund | Special Revenue Fund | Capital Projects Fund | Total |
|--------------------|---------------------|----------------------------|-----------------------------|----------------------|
| Salaries | \$ 724,758 | \$ 4,639,345 | \$ - | \$ 5,364,103 |
| Employee benefits | 210,649 | 1,407,664 | - | 1,618,313 |
| Purchased services | 2,530,490 | 772,257 | - | 3,302,747 |
| Supplies | 846,980 | - | - | 846,980 |
| Capital outlay | - | - | 594,273 | 594,273 |
| Principal expense | - | - | 188,295 | 188,295 |
| Interest expense | - | - | 232,602 | 232,602 |
| | <u>\$ 4,312,877</u> | <u>\$ 6,819,266</u> | <u>\$ 1,015,170</u> | <u>\$ 12,147,313</u> |

The Schedule of Disbursements Paid by Object agrees to the Annual Secretary of the Board Report.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS 115-916
 SCHEDULE OF SELECTED STATISTICS
 For the Year Ended June 30, 2016

1. CALENDAR

A. Standard Day Length (SDL) – The total number of hours between the starting time of the first class and the dismissal time of the last class, minus the time allowed for lunch and one passing time, and minus Channel One time were as follows:

| | |
|-------------------------------|------|
| Grades K-5 – Academy | 6.25 |
| Grades K-5 – South Elementary | 6.25 |
| Grades 6-12 | 6.50 |

B. The number of hours classes were in session and pupils were under the direction of teachers during the year was as follows:

| | |
|-------------------------------|----------|
| Grades K-5 - Academy | 1,125.25 |
| Grades K-5 - South Elementary | 1,119.75 |
| Grades 6-12 | 1,169.00 |

C. The number of days classes were in session and pupils were under the direction of teachers during the year was 184 days.

2. AVERAGE DAILY ATTENDANCE

Average daily attendance:

Regular term:

| | |
|-------------------------------|--------|
| Grades K-5 - Academy | 413.97 |
| Grades K-5 - South Elementary | 344.09 |
| Grades 6-8 - Middle School | 219.26 |
| Grades 9-11 - High School | 220.89 |

| | |
|--------------------|-----------------|
| Total regular term | <u>1,198.21</u> |
|--------------------|-----------------|

| | |
|--|--------------|
| Summer school average daily attendance | <u>25.57</u> |
|--|--------------|

| | |
|--------------------------------|------------------------|
| Total Average Daily Attendance | <u><u>1,223.78</u></u> |
|--------------------------------|------------------------|

3. SEPTEMBER MEMBERSHIP

| | |
|-------------------------------|------------------------|
| September Resident Membership | <u><u>1,292.00</u></u> |
|-------------------------------|------------------------|

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS 115-916
 SCHEDULE OF SELECTED STATISTICS (continued)
 FOR THE YEAR ENDED JUNE 30, 2016

4. FREE AND REDUCED PRICE LUNCH FTE COUNT

Free and Reduced Price Eligible Students:

| | |
|---------|----------------------|
| Free | 515.00 |
| Reduced | <u>103.00</u> |
| Total | <u><u>618.00</u></u> |

5. FINANCE

- A. A bond is not required by Section 162.401, RSMo, since the Academy is organized under the charter school laws of Missouri.
- B. The Academy’s deposits are not required to be secured during the year as required by Section 110.010 and 110.020, RSMo.
- C. The Academy does not have a Debt Service Fund.
- D. Salaries reported for educators in the October Core Data Cycle are supported by payroll/contract records.
- E. The Academy made a \$162,326 or 7% x SAT x WADA transfer that was not in excess of the adjusted expenditure calculation. The transfer was approved by the Board of Directors.
- F. The Academy is not required to publish a summary of the 2014-2015 audit report pursuant to Section 165.121, RSMo.
- G. The Academy is not required to have a professional development committee plan adopted by the Board identifying the expenditure of seventy-five percent (75%) of one percent (1%) of the current year basic formula apportionment.
- H. The amount spent for professional development activities was \$56,127.

There were no findings noted above.

6. TRANSPORTATION

- A. The Academy did not operate a transportation system and therefore has not claimed any costs for school transportation under 5 CSR 30-261.040, Allowable Costs for State Transportation Aid.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

| Federal Grantor Pass Through Grantor/ Program Title | Federal CFDA Number | Pass-through Grantor's Number or Other Identifying Number | Federal Expenditures |
|---|---------------------------|--|----------------------------|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | |
| Missouri Department of Elementary and Secondary Education | | | |
| Child Nutrition Cluster | | | |
| School Breakfast Program | 10.553 | 2015IN109943 | \$ 8,423 |
| | 10.553 | 2016N109943 | <u>36,462</u> |
| | | | 44,885 |
| National School Lunch Program - Cash | 10.555 | 2015IN109943 | 40,583 |
| - Cash | 10.555 | 2016IN109943 | 198,495 |
| - Commodities | 10.555 | 115-916 | <u>11,326</u> |
| | | | <u>250,404</u> |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | 295,289 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | |
| Missouri Department of Elementary and Secondary Education | | | |
| Title I Grants to LEAs | 84.010 | S010A150025 | 449,036 |
| Improving Teacher Quality State Grants | 84.367 | S367A140024 | 187,736 |
| | 84.367 | S367A150024 | <u>8,152</u> |
| | | | 195,888 |
| Special Education Grants to States | 84.027 | H027A140040 | 118,226 |
| | 84.027 | H027A150040 | <u>38,955</u> |
| | | | <u>157,181</u> |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | <u>802,105</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u><u>\$ 1,097,394</u></u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

- The accompanying Schedules of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Gateway Science Academy of St. Louis, Missouri, under programs of the federal government for the year ended June 30, 2016. The information in the 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 Gateway Science Academy, St. Louis, Missouri, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Academy.

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
Year Ended June 30, 2016

2. The Schedule of Expenditures of Federal Awards is presented using the modified cash basis of accounting, which is described in Note B of the Academy's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance. Commodities received and expended are valued by the Food Service Section of the Department of Elementary and Secondary Education.
3. The Academy did not provide funds to subrecipients in the current year.
4. The District has not elected to use the 10% de minimis indirect cost rate.

INTERNAL CONTROL AND COMPLIANCE



**INDEPENDENT ACCOUNTANTS' REPORT ON MANAGEMENT'S
ASSERTIONS ABOUT COMPLIANCE WITH SPECIFIED
REQUIREMENTS OF MISSOURI LAWS AND REGULATIONS**

Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

We have examined management's assertions that Gateway Science Academy of Saint Louis complied with the requirements of Missouri laws and regulations regarding budgetary and disbursement procedures; accurate disclosure of the Academy's attendance records of average daily attendance, standard day length, resident membership on the last Wednesday of September, pupil transportation records of the average daily transportation of pupils eligible and ineligible for state aid, the number of miles eligible and ineligible for state aid and other statutory requirements as listed in the schedule of selected statistics during the year ended June 30, 2016. Management is responsible for the Gateway Science Academy of Saint Louis' compliance with those requirements. Our responsibility is to express an opinion on the Gateway Science Academy of Saint Louis' compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence about the Gateway Science Academy of Saint Louis' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Gateway Science Academy of Saint Louis' compliance with specified requirements.

In our opinion, Gateway Science Academy of Saint Louis complied in all material respects, with the aforementioned requirements for the year ended June 30, 2016.

This report is intended solely for the information and use of the Board of Education, Academy management, and the Missouri Department of Elementary and Secondary Education and is not intended to be, and should not be, used by anyone other than these specified parties.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
October 7, 2016

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**INDEPENDENT AUDITORS' 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
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

We have audited, in accordance with the 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 the governmental activities and each major fund of Gateway Science Academy of Saint Louis as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Gateway Science Academy of Saint Louis' basic financial statements and have issued our report thereon dated October 7, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gateway Science Academy of Saint Louis' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy'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.

Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

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 a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gateway Science Academy of Saint Louis' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of 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.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
October 7, 2016



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

To the Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

Report on Compliance for the Major Federal Program

We have audited Gateway Science Academy of Saint Louis' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Gateway Science Academy of Saint Louis' major federal program for the year ended June 30, 2016. Gateway Science Academy of Saint Louis' major federal program is 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 the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance on Gateway Science Academy of Saint Louis' 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 Audits* (Uniform Guidance). Those standards and 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 Gateway Science Academy of Saint Louis' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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Member of The Leading Edge Alliance

To the Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

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 on Gateway Science Academy of Saint Louis' compliance.

Opinion on the Major Federal Program

In our opinion, Gateway Science Academy of Saint Louis 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, 2016.

Internal Control Over Compliance

Management of Gateway Science Academy of Saint Louis 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 Gateway Science Academy of Saint Louis' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs 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 Academy'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 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.

To the Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

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.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
October 7, 2016

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Section I – Summary of Audit Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with the modified cash basis of accounting:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified: _____ yes X no

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified: _____ yes X 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 2CFR 200.516(a)? _____ yes X no

Identification of major federal programs:

CFDA Number(s)
84.010

Name of Federal
Program or Cluster
Title I Grants to LEAs

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee? _____ yes X no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

GATEWAY SCIENCE ACADEMY OF SAINT LOUIS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no prior year audit findings.



Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

In planning and performing our audit of the basic financial statements of Gateway Science Academy of Saint Louis, for the year ended June 30, 2016, we considered the Academy's internal control to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

However, we became aware of matters to bring to your attention. The following paragraphs summarize our comments regarding these matters.

1. Periodic Internal Control Review

As the Academy evolves, policies and procedures change, the Academy should periodically conduct a review of its internal control procedures to determine if any changes are necessary in order to protect the Academy's assets.

We Recommend:

The Academy conduct a review of its internal control procedures to determine opportunities for strengthening safeguards over the Academy's assets. The Academy may want to consider conducting reviews on cash management, computer information systems, mail distribution procedures, purchasing procedures, new vendor procedures, and other areas the Academy considers necessary.

2. Federal Grant Compliance

On December 26, 2013, the Office of Management and Budget issued the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (OMNI Circular). This new circular significantly changes the grant compliance requirements governments must follow in complying with federal grants. The compliance requirements are effective for awards made after December 26, 2014.

The new OMNI Circular changes grant compliance requirements in the areas of allowable costs, procurement, real property management and sub-recipient monitoring. The new Circular also has new requirements regarding internal controls and includes the requirement that governments have **written** procedures for cash management and allowable cost determination. The new Circular requires governments receiving federal funds to have a **written** conflict of interest policy with **penalties** for non-compliance. The OMNI Circular also significantly changed sub-recipient monitoring and communication requirements for pass-through grants.

We Recommend:

The Academy continues to require that individuals charged with ensuring grant compliance receive training on the new OMNI Circular. We also recommend the Academy adopt plans and policies to ensure compliance with the new OMNI Circular.

3. New Overtime Rules

The Department of Labor has issued a new ruling which updates the regulations determining which salaried employees are entitled to the Fair Labor Standards Act's minimum wage and overtime pay protections. The new rule increases the salary threshold for salaried workers from \$23,660 to \$47,476 per year. Workers making less than the new salary threshold are entitled to overtime pay when working more than 40 hours per week. The new rule also automatically updates the salary threshold every three years, based on wage growth over time. The final rule will become effective on December 1, 2016.

We Recommend:

The Academy become familiar with the new requirements for overtime pay and determine the effect of these new requirements on the Academy's finances. We believe the Academy should identify the employees that will fall under these new requirements and develop a strategy to mitigate the impact of these new requirements on the Academy. One of the bigger challenges will be in tracking worker hours in order to ensure compliance.

4. Electronic Information Safeguards

In the past year, we have observed an increase in the number of attacks using a form of computer malware known as ransomware. This type of attack can be triggered by opening an email or simply running the computer's mouse over an advertisement on a website. Once the attack is triggered, the malware runs an "*.exe" file in the background without the knowledge of the user. Once the file executes, the attacked computer's hard drive is encrypted and the only access the user has to their computer is to see and follow the ransom instructions given to obtain an encryption key that will unlock the computer. If the computer is attacked while it is connected to a network, the malware will attempt to encrypt any network drives to which the computer is connected. The only known remedy to this situation is to pay the ransom or wipe the computer's hard drive and set it up as a new device.

We Recommend:

The Academy speak with its information technology professionals to determine that safeguards are in place to prevent such an attack. If proper safeguards are not currently in place, we recommend that policies and procedures be amended to include appropriate safeguards. Further, even if the Academy has a policy prohibiting saving of information to local hard drives of individual computers within the Academy, various work related files are likely being saved on individual workstations. This information needs to be backed up in such a way that it is recoverable in order to avoid loss of data. Having proper controls in place to ward off cyber-attacks is an important first step to safeguarding Academy data but it is not enough as attacks evolve faster than controls or preventative measures. Because of this, the Academy needs to have a means of backing up all Academy related electronic data in such a way that it can be restored in the event of a cyber-attack.

5. Wire Transfer Fraud Schemes

In recent months, a new form of cyber threat has emerged. In this scenario, the criminal will infiltrate the computer of an organization in such a way that it is undetected. The activities of the organization will be monitored and studied for a period of several months while the criminal gains an understanding of the general operations of the organization including names, job functions, banking information, and client/customer information. Once enough information has been gathered, the criminal watches for a sign that upper management is out of the office or otherwise unavailable. There is typically a call or email to the bookkeeper or a person with the ability to wire funds from the criminal posing as a member of upper management. This contact will generally be an urgent need to wire some amount of money to a specific account and is normally done close to the cut off for doing a wire transfer on that business day.

Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri
Page Four

We Recommend:

The Academy educate all personnel involved in the banking and wire transfer process on this scheme and install a policy or procedures that institutes the step of an extra phone call back to the management member or a face to face approval before any wire transfer is carried out. Proper controls for performing a wire or ACH transaction should involve at least two people. This should include one person to initiate a transaction and a separate person to authorize or approve the transaction. Academy personnel should know that if something seems out of the ordinary with such a request, additional verification steps need to be taken to safeguard the assets of the Academy.

We appreciate this opportunity to serve as Gateway Science Academy of Saint Louis' independent auditor and the courtesies and assistance extended to us by the Academy's employees.

Respectfully submitted,

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
October 7, 2016



November 10, 2016

Mr. Engin Blackstone, Superintendent
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

Dear Mr. Blackstone:

Please find enclosed 12 signed copies of the financial statements with auditors' report for the year ended June 30, 2016. You will need to send one copy of this report to the Department of Elementary and Secondary Education in order for you to be eligible for 2016-17 fiscal year state aid. The Board of Directors must approve the audit report at a Board of Directors meeting and the Academy must send a copy of the minutes that indicate approval to the Finance Section of the Department of Elementary and Secondary Education.

Also please find enclosed 12 copies of a management letter with matters we want to bring to your attention and 12 copies of a required letter for the Board of Directors.

We wish to express our appreciation for the cooperation given to us by all school personnel during our audit. If you have any questions regarding the financial statements, please contact us at your convenience.

Thank you for the opportunity of serving the Academy this year.

Sincerely,

KPM CPAs, PC

KPM CPAs, PC

www.kpmcpa.com

1445 E. Republic Road Springfield, MO 65804 | 417-882-4300 | fax 417-882-4343
500 W. Main Street, Suite 200 Branson, MO 65616 | 417-334-2987 | fax 417-336-3403

Member of The Leading Edge Alliance



Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri

We have audited the financial statements of Gateway Science Academy of Saint Louis for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We communicated such information in our letter to you dated January 27, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Gateway Science Academy of Saint Louis are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015-2016. We noted no transactions entered into by the Academy for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no misstatements regarding assets or net assets.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 7, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the modified cash basis of accounting, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Board of Directors
Gateway Science Academy of Saint Louis
Saint Louis, Missouri
Page Three

This information is intended solely for the use of the Board of Directors and management of Gateway Science Academy of Saint Louis and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
October 7, 2016