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

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

December 6, 2012

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

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Katz, Sapper & Miller, Independent Public Accountants, for the period July 1, 2010 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the 21<sup>st</sup> Century Charter School @ Gary, Inc., as of June 30, 2012 and 2011, 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. Pages 38 and 39 contain two current audit findings. Pages 40 and 41 contain the status of four prior audit findings. Management's response is on page 42.

In addition to the report presented herein, a Supplemental Audit Report for 21<sup>st</sup> Century Charter School @ Gary, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

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

*State Board of Accounts*

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

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

June 30, 2012 and 2011

# 21ST CENTURY CHARTER SCHOOL @ GARY, INC.

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*Independent Auditors' Report*

Board of Directors  
21st Century Charter School @ Gary, Inc.

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of 21st Century Charter School @ Gary, Inc. (collectively, the School) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the School's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the School's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for the Audits of Charter Schools Performed by Private Examiners*, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School as of June 30, 2012 and 2011, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2012, on our consideration of the School's internal control over financial reporting and 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* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 12, the retirement plan schedule of funding progress and employer contributions on page 28 and the schedule of actual operating revenues and expenses compared to budget – modified cash basis on pages 29 and 30 are presented to supplement the basic financial statements. Such information, though not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School's basic financial statements. The schedules of expenditures of federal awards on pages 33 and 34 are presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic 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 audits 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Katz, Sappun & Miller, LLP*

Indianapolis, Indiana  
November 2, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended June 30, 2012 and 2011**

21st Century Charter School @ Gary, Inc. (the School) is a public charter school located in Gary, Indiana. The School is structured around a competency-based approach that allows children with higher ability to progress and also permits students to regroup, master material not mastered at a more restrictive school and continue toward their potential.

The accompanying financial statements of the School as of June 30, 2012 and 2011, and for the fiscal years then ended, conform with accounting principles generally accepted in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards document these principles.

This section of the School's financial report provides management's discussion and analysis (MD&A) of the financial performance during the years ended June 30, 2012 and 2011. Please read it in conjunction with the Independent Auditors' Report at the beginning of this report and the financial statements, which follow this section.

This MD&A is an opportunity for management to make information concerning the School meaningful and understandable. In addition to describing the School and its work, this MD&A briefly analyzes, discusses or presents:

- Basic financial statements
- Condensed financial information
- Overall financial position and results of operations
- Significant transactions within individual funds
- Significant capital assets and long-term debt activity
- Currently known facts

#### **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2012 fiscal year include the following:

- Total revenues were \$4,091,095 as compared to total expenses of \$4,019,087.
- The total fund balance increased by \$72,008 from the prior year's ending balance.

Key financial highlights for the 2011 fiscal year include the following:

- Total revenues were \$3,832,695 as compared to total expenses of \$4,067,149.
- The total fund balance decreased by \$234,454 from the prior year's ending balance.

## **21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) Years Ended June 30, 2012 and 2011**

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report consists of three parts - Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), retirement plan schedule of funding progress and employer contributions (unaudited), and the schedules of actual operating revenues and expense compared to budget – modified cash basis, other reports and supplementary information, which includes 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, schedules of expenditures of federal awards, independent auditors' report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133, schedule of finding and questioned costs, summary schedule of prior audit findings, and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are School-wide financial statements that provide both short-term and long-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations in more detail than the School-wide statements.
- The financial statements also include notes that explain some of the information in the statements and provide more detailed data.



**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Years Ended June 30, 2012 and 2011**

Figure A-2 summarizes the major features of the School's financial statements, including the portion of the School's activities the statements cover and the types of information the statements contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the School-wide and Fund Financial Statements

| <b>Type of Statements</b>              | <b>School-wide</b>   | <b>Government Funds Statements</b>  |
|--|--|---|
| Scope                                  | Entire School (except fiduciary funds) and the School's component units            | The activities of the School that are not proprietary or fiduciary  |
| Required Financial Statements          | Statements of net assets<br><br>Statements of activities                           | Balance sheets<br><br>Statements of revenues, expenditures and changes in fund balances   |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus                                    | Modified accrual accounting and current financial resources focus   |
| Type of asset/liability information    | All assets and liabilities, both financial and capital, short-term and long-term   | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included   |
| Type of inflow/outflow information     | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services, have been received and payment is due during the year or soon thereafter |

## 21ST CENTURY CHARTER SCHOOL @ GARY, INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) Years Ended June 30, 2012 and 2011

#### School-Wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statements of activities regardless of when cash is received or paid.

The two School-wide statements report the School's net assets and how they have changed. Net assets, the difference between the School's assets and liabilities, is one way to measure the School's financial health or position.

- Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional non-financial factors such as changes in the School's creditworthiness.

In the School-wide financial statements the activities of the School are shown as governmental activities:

- Governmental Activities: Most of the School's basic services are included here, such as education and administration. State funding finances most of these activities.

#### Fund Financial Statements

The fund financial statements provide more detailed information about the School's funds focusing on its most significant or "major" funds, not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs.

- The School may establish funds to control and manage money for specific purposes.

The School has the following fund type:

- Governmental funds - Most of the School's basic services are included in governmental funds, which generally focus on balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine the financial resources that can be spent in the near future to finance the School's programs. Since this information does not encompass the additional long-term focus of the School-wide statements, additional information at the bottom of the governmental funds statements is provided to explain the relationship (or differences) between the financial reports.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Years Ended June 30, 2012 and 2011**

**FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

**Net Assets**

The following is condensed from the Statements of Net Assets:

|                               | <b>Governmental Activities</b> |                             |                             |
|-------------------------------|--------------------------------|-----------------------------|-----------------------------|
|                               | <u><b>June 30, 2012</b></u>    | <u><b>June 30, 2011</b></u> | <u><b>June 30, 2010</b></u> |
| <b>ASSETS</b>                 |                                |                             |                             |
| Current Assets                | \$1,832,129                    | \$1,632,079                 | \$1,661,116                 |
| Capital and Noncurrent Assets | 530,896                        | 615,199                     | 681,709                     |
| <b>Total Assets</b>           | <u><b>\$2,363,025</b></u>      | <u><b>\$2,247,278</b></u>   | <u><b>\$2,342,825</b></u>   |
| <b>LIABILITIES</b>            |                                |                             |                             |
| Current Liabilities           | \$ 425,044                     | \$ 452,488                  | \$ 377,267                  |
| Noncurrent Liabilities        | 1,822,532                      | 1,751,349                   | 1,687,663                   |
| <b>Total Liabilities</b>      | <u><b>\$2,247,576</b></u>      | <u><b>\$2,203,837</b></u>   | <u><b>\$2,064,930</b></u>   |
| <b>NET ASSETS</b>             |                                |                             |                             |
| Invested in Capital Assets    |                                |                             |                             |
| Net of Related Debt           | \$ 517,339                     | \$ 615,199                  | \$ 681,709                  |
| Restricted                    | -                              | -                           | 36,560                      |
| Unrestricted                  | (401,890)                      | (571,758)                   | (440,374)                   |
| <b>Total Net Assets</b>       | <u><b>\$ 115,449</b></u>       | <u><b>\$ 43,441</b></u>     | <u><b>\$ 277,895</b></u>    |

The total net assets at June 30 were as follows:

|             | <u><b>2012</b></u>       | <u><b>2011</b></u>      | <u><b>2010</b></u>       |
|-------------|--------------------------|-------------------------|--------------------------|
| Assets      | \$2,363,025              | \$2,247,278             | \$2,342,825              |
| Liabilities | 2,247,576                | 2,203,837               | 2,064,930                |
| Net Assets  | <u><b>\$ 115,449</b></u> | <u><b>\$ 43,441</b></u> | <u><b>\$ 277,895</b></u> |

The School's total net assets were \$115,449 on June 30, 2012, compared to total net assets of \$43,441 at June 30, 2011, and \$277,895 at June 30, 2010.

The primary change in the assets and liabilities from June 30, 2011 to June 30, 2012 was increased state and federal funding related to higher student enrollment.

The primary change in the assets and liabilities from June 30, 2010 to June 30, 2011 was due to expiration of American Recovery and Reinvestment Act grants.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Years Ended June 30, 2012 and 2011**

**Changes in Net Assets**

The following is condensed from the Statements of Activities:

|   | <b>Change in Net Assets</b>    |                         |                          |
|---|--------------------------------|-------------------------|--------------------------|
|   | <b>Year Ended June 30,</b>     |                         |                          |
|   | <b>Governmental Activities</b> |                         |                          |
|   | <b><u>2012</u></b>             | <b><u>2011</u></b>      | <b><u>2010</u></b>       |
| <b>Revenues</b>                           |                                |                         |                          |
| Program Revenues                          |                                |                         |                          |
| Charges for Services                      | \$ 4,388                       | \$ 5,882                | \$ 8,020                 |
| Operating Grants and Contributions        | 283,612                        | 301,958                 | 208,376                  |
| General Revenues                          |                                |                         |                          |
| Unrestricted State Funding                | 3,036,150                      | 2,890,544               | 2,725,031                |
| Other                                     | 766,945                        | 634,311                 | 1,090,017                |
| <b>Total Revenues</b>                     | <b><u>4,091,095</u></b>        | <b><u>3,832,695</u></b> | <b><u>4,031,444</u></b>  |
| <b>Expenses</b>                           |                                |                         |                          |
| Instruction                               | 1,492,584                      | 1,347,880               | 1,461,054                |
| Support Services                          | 1,886,769                      | 1,904,077               | 1,800,342                |
| Noninstructional Services                 | 22,847                         | 194,101                 | 170,280                  |
| Facilities, Acquisitions and Construction | 360,000                        | 360,000                 | 384,590                  |
| Depreciation                              | 192,460                        | 197,406                 | 141,325                  |
| Interest                                  | 64,427                         | 63,685                  | 63,685                   |
| <b>Total Expenses</b>                     | <b><u>4,019,087</u></b>        | <b><u>4,067,149</u></b> | <b><u>4,021,276</u></b>  |
| <b>Change in Net Assets</b>               | 72,008                         | (234,454)               | 10,168                   |
| Beginning Net Assets                      | 43,441                         | 277,895                 | 267,727                  |
| Ending Net Assets                         | <b><u>\$ 115,449</u></b>       | <b><u>\$ 43,441</u></b> | <b><u>\$ 277,895</u></b> |

The change in net assets for the years ended June 30 was as follows:

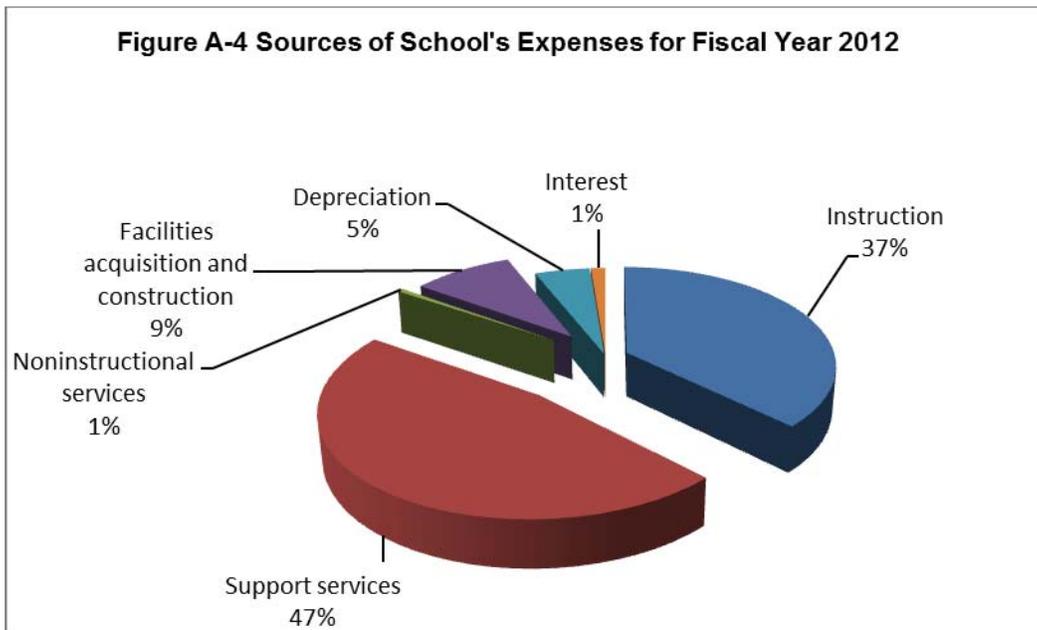
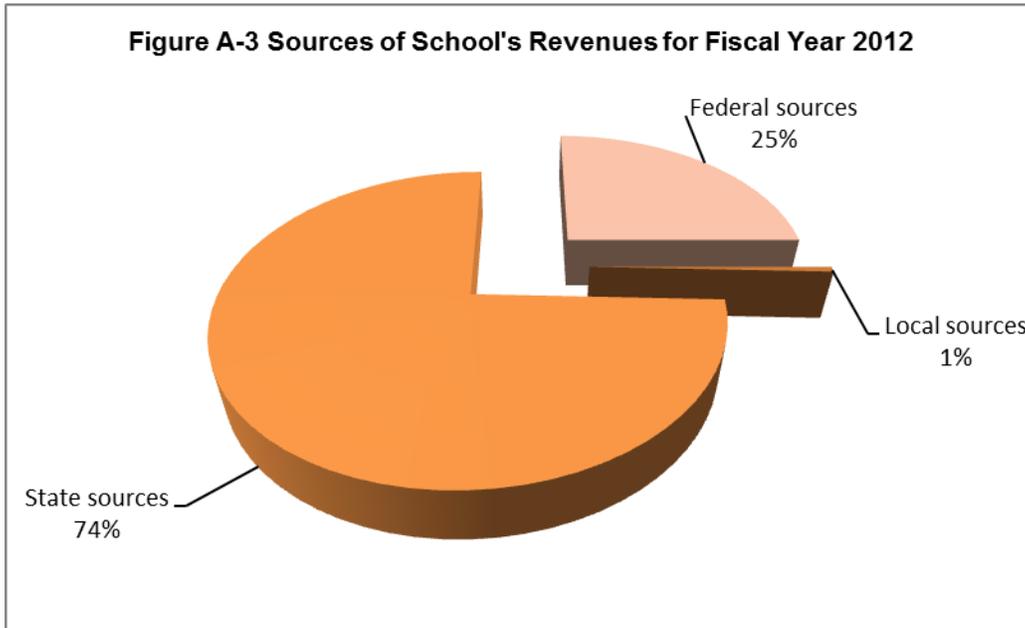
|                      | <b><u>2012</u></b>      | <b><u>2011</u></b>         | <b><u>2010</u></b>      |
|----------------------|-------------------------|----------------------------|-------------------------|
| Revenues             | \$4,091,095             | \$3,832,695                | \$4,031,444             |
| Expenses             | 4,019,087               | 4,067,149                  | 4,021,276               |
| Change in Net Assets | <b><u>\$ 72,008</u></b> | <b><u>\$ (234,454)</u></b> | <b><u>\$ 10,168</u></b> |

Change in revenues and expenses in 2012 is primarily due to an increase in student enrollment, and the change in 2011 is due to expiration of American Recovery and Reinvestment Act grants.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Years Ended June 30, 2012 and 2011**

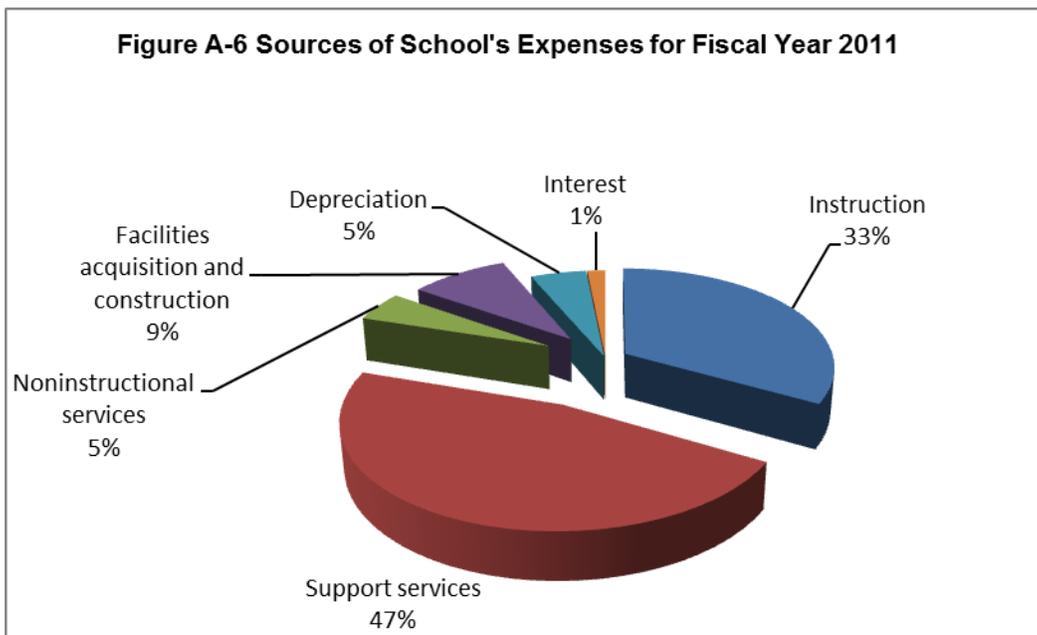
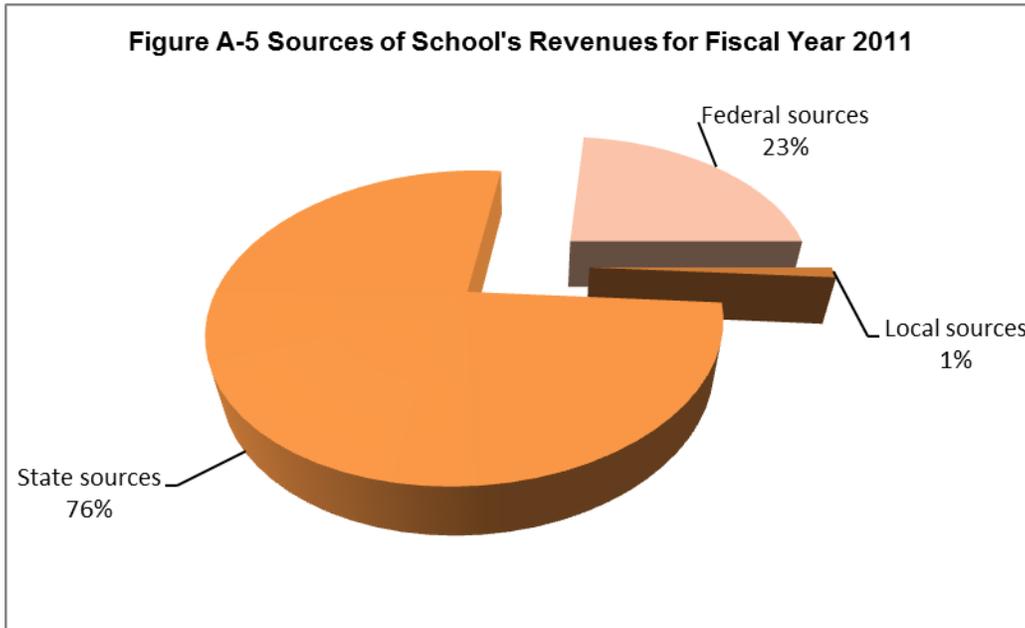
Sources of revenue and expenses are broken down below.



**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Years Ended June 30, 2012 and 2011**

Sources of revenue and expenses are broken down below.



**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**Years Ended June 30, 2012 and 2011**

**CAPITAL ASSETS**

By the end of fiscal year 2012, the School had invested \$1,559,643 in capital assets. Depreciation on these assets was \$192,460 in 2012 and \$197,406 in 2011.

**The School's Capital Assets**

|                                | <u><b>2012</b></u>       | <u><b>2011</b></u>       | <u><b>2010</b></u>       |
|--------------------------------|--------------------------|--------------------------|--------------------------|
| Capital assets                 | \$ 1,559,643             | \$ 1,451,486             | \$ 1,320,591             |
| Less: Accumulated depreciation | <u>(1,028,747)</u>       | <u>(836,287)</u>         | <u>(638,882)</u>         |
| Total                          | <u><u>\$ 530,896</u></u> | <u><u>\$ 615,199</u></u> | <u><u>\$ 681,709</u></u> |

**DEBT**

Changes in long-term liabilities of governmental activities for the year ended June 30, 2012, were as follows:

|                  | <u><b>Balance<br/>Beginning<br/>of Year</b></u> | <u><b>Increases</b></u> | <u><b>Decreases</b></u> | <u><b>Balance<br/>End of Year</b></u> | <u><b>Amount<br/>Due After<br/>One Year</b></u> |
|------------------|---|-------------------------|-------------------------|---------------------------------------|---|
| Accrued Interest | \$ 159,214                                      | \$ 63,685               | \$                      | \$ 222,899                            | \$ 222,899                                      |
| Notes Payable    | <u>1,592,135</u>                                | <u>18,355</u>           | <u>4,798</u>            | <u>1,605,692</u>                      | <u>1,599,633</u>                                |
|                  | <u><u>\$1,751,349</u></u>                       | <u><u>\$ 82,040</u></u> | <u><u>\$ 4,798</u></u>  | <u><u>\$1,828,591</u></u>             | <u><u>\$1,822,532</u></u>                       |

Changes in long-term liabilities of governmental activities for the year ended June 30, 2011, were as follows:

|                  | <u><b>Balance<br/>Beginning<br/>of Year</b></u> | <u><b>Increases</b></u>     | <u><b>Decreases</b></u>     | <u><b>Balance<br/>End of Year</b></u> | <u><b>Amount<br/>Due After<br/>One Year</b></u> |
|------------------|---|-----------------------------|-----------------------------|---------------------------------------|---|
| Accrued Interest | \$ 95,528                                       | \$ 63,686                   | \$                          | \$ 159,214                            | \$ 159,214                                      |
| Notes Payable    | <u>1,592,135</u>                                | <u>                    </u> | <u>                    </u> | <u>1,592,135</u>                      | <u>1,592,135</u>                                |
|                  | <u><u>\$1,687,663</u></u>                       | <u><u>\$ 63,686</u></u>     | <u><u>\$ -</u></u>          | <u><u>\$1,751,349</u></u>             | <u><u>\$1,751,349</u></u>                       |

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the School's finances and to demonstrate the School's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact the Business Office, 21<sup>st</sup> Century Charter School, 556 Washington Street, Gary, Indiana 46402.

## **BASIC FINANCIAL STATEMENTS**

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**  
**STATEMENTS OF NET ASSETS - PRIMARY GOVERNMENT**  
**June 30, 2012 and 2011**

**ASSETS**

|                          | <b>Governmental<br/>Activities</b> |                            |
|--------------------------|------------------------------------|----------------------------|
|                          | <b>2012</b>                        | <b>2011</b>                |
| <b>CURRENT ASSETS</b>    |                                    |                            |
| Cash                     | \$ 209,663                         | \$ 9,225                   |
| Accounts receivable      | 1,622,466                          | 1,622,854                  |
| Total Current Assets     | <u>1,832,129</u>                   | <u>1,632,079</u>           |
| <b>NONCURRENT ASSETS</b> |                                    |                            |
| Capital assets, net      | 530,896                            | 615,199                    |
| Total Noncurrent Assets  | <u>530,896</u>                     | <u>615,199</u>             |
| <b>TOTAL ASSETS</b>      | <u><u>\$ 2,363,025</u></u>         | <u><u>\$ 2,247,278</u></u> |

**LIABILITIES AND NET ASSETS**

|   |                            |                            |
|---|----------------------------|----------------------------|
| <b>CURRENT LIABILITIES</b>                      |                            |                            |
| Accounts payable and other                      | \$ 224,452                 | \$ 183,576                 |
| Accrued expenses                                | 194,533                    | 268,912                    |
| Notes payable - current                         | 6,059                      |                            |
| Total Current Liabilities                       | <u>425,044</u>             | <u>452,488</u>             |
| <b>NONCURRENT LIABILITIES</b>                   |                            |                            |
| Accrued interest                                | 222,899                    | 159,214                    |
| Notes payable                                   | 1,599,633                  | 1,592,135                  |
| Total Noncurrent Liabilities                    | <u>1,822,532</u>           | <u>1,751,349</u>           |
| Total Liabilities                               | <u>2,247,576</u>           | <u>2,203,837</u>           |
| <b>NET ASSETS</b>                               |                            |                            |
| Invested in capital assets, net of related debt | 517,339                    | 615,199                    |
| Unrestricted                                    | (401,890)                  | (571,758)                  |
| Total Net Assets                                | <u>115,449</u>             | <u>43,441</u>              |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <u><u>\$ 2,363,025</u></u> | <u><u>\$ 2,247,278</u></u> |

See accompanying notes to financial statements.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**STATEMENT OF ACTIVITIES - PRIMARY GOVERNMENT**  
**Year Ended June 30, 2012**

| <b>FUNCTIONS/PROGRAMS</b>                             | <b>Expenses</b>     | <b>Program Revenues</b>   |   | <b>Net (Expense)<br/>Revenue and<br/>Changes in Net<br/>Assets</b> |
|---|---------------------|---|---|--|
|   |                     | <b>Charges for<br/>Services</b>                                 | <b>Operating<br/>Grants and<br/>Contributions</b> |  |
| <b>PRIMARY GOVERNMENT<br/>GOVERNMENTAL ACTIVITIES</b> |                     |   |   |  |
| Instruction   | \$ 1,492,584        |   | \$ 49,587   | \$ (1,442,997)   |
| Support services                                      | 1,886,769           | \$ 4,388  | 5,033   | (1,877,348)  |
| Noninstructional services                             | 22,847              |   |   | (22,847)   |
| Facilities acquisition and construction               | 360,000             |   | 228,992   | (131,008)  |
| Depreciation, unallocated                             | 192,460             |   |   | (192,460)  |
| Interest, unallocated                                 | 64,427              |   |   | (64,427)   |
| Total Governmental Activities                         | <u>4,019,087</u>    | <u>4,388</u>  | <u>283,612</u>                                    | <u>(3,731,087)</u>   |
| <b>TOTAL PRIMARY GOVERNMENT</b>                       | <u>\$ 4,019,087</u> | <u>\$ 4,388</u>   | <u>\$ 283,612</u>                                 | <u>\$ (3,731,087)</u>  |
|   |                     | <b>GENERAL REVENUES</b>   |   |  |
|   |                     | Other local sources   |   | \$ 18,513  |
|   |                     | State aid   |   | 3,036,150  |
|   |                     | Grants and contributions not restricted<br>to specific programs |   | <u>748,432</u>   |
|   |                     | Total General Revenues  |   | <u>3,803,095</u>   |
|   |                     | <b>CHANGE IN NET ASSETS</b>                                     |   | 72,008   |
|   |                     | <b>NET ASSETS - BEGINNING OF YEAR</b>                           |   | 43,441   |
|   |                     | <b>NET ASSETS - END OF YEAR</b>                                 |   | <u>\$ 115,449</u>  |

See accompanying notes to financial statements.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**STATEMENT OF ACTIVITIES - PRIMARY GOVERNMENT  
Year Ended June 30, 2011**

| <b>FUNCTIONS/PROGRAMS</b>                             | <b>Expenses</b>     | <b>Program Revenues</b>   |   | <b>Net (Expense)<br/>Revenue and<br/>Changes in Net<br/>Assets</b> |
|---|---------------------|---|---|--|
|   |                     | <b>Charges for<br/>Services</b>                                 | <b>Operating<br/>Grants and<br/>Contributions</b> |  |
| <b>PRIMARY GOVERNMENT<br/>GOVERNMENTAL ACTIVITIES</b> |                     |   |   |  |
| Instruction   | \$ 1,347,880        |   | \$ 42,156   | \$ (1,305,724)   |
| Support services                                      | 1,904,077           | \$ 5,882  | 151,802   | (1,746,393)  |
| Noninstructional services                             | 194,101             |   |   | (194,101)  |
| Facilities acquisition and construction               | 360,000             |   | 108,000   | (252,000)  |
| Depreciation, unallocated                             | 197,406             |   |   | (197,406)  |
| Interest, unallocated                                 | 63,685              |   |   | (63,685)   |
| Total Governmental Activities                         | <u>4,067,149</u>    | <u>5,882</u>  | <u>301,958</u>                                    | <u>(3,759,309)</u>   |
| <b>TOTAL PRIMARY GOVERNMENT</b>                       | <u>\$ 4,067,149</u> | <u>\$ 5,882</u>   | <u>\$ 301,958</u>                                 | <u>\$ (3,759,309)</u>  |
|   |                     | <b>GENERAL REVENUES</b>   |   |  |
|   |                     | Other local sources   |   | \$ 37,269  |
|   |                     | State aid   |   | 2,890,544  |
|   |                     | Grants and contributions not restricted<br>to specific programs |   | <u>597,042</u>   |
|   |                     | Total General Revenues  |   | <u>3,524,855</u>   |
|   |                     | <b>CHANGE IN NET ASSETS</b>                                     |   | (234,454)  |
|   |                     | <b>NET ASSETS - BEGINNING OF YEAR</b>                           |   | 277,895  |
|   |                     | <b>NET ASSETS - END OF YEAR</b>                                 |   | <u>\$ 43,441</u>   |

See accompanying notes to financial statements.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012**

**ASSETS**

|                     | <u>General</u>      | <u>Other<br/>Governmental<br/>Funds</u> | <u>Totals</u>       |
|---------------------|---------------------|---|---------------------|
| <b>ASSETS</b>       |                     |   |                     |
| Cash                | \$ 22,315           | \$ 187,348                              | \$ 209,663          |
| Accounts receivable | 1,622,466           |   | 1,622,466           |
| <b>TOTAL ASSETS</b> | <u>\$ 1,644,781</u> | <u>\$ 187,348</u>                       | <u>\$ 1,832,129</u> |

**LIABILITIES AND FUND BALANCES**

|  |                     |                   |                     |
|--|---------------------|-------------------|---------------------|
| <b>LIABILITIES</b>                         |                     |                   |                     |
| Accounts payable and other                 | \$ 37,104           | \$ 187,348        | \$ 224,452          |
| Accrued expenses                           | 194,533             |                   | 194,533             |
| Notes payable - current                    | 6,059               |                   | 6,059               |
| Total Liabilities                          | <u>237,696</u>      | <u>187,348</u>    | <u>425,044</u>      |
| <b>FUND BALANCES</b>                       |                     |                   |                     |
| Unassigned                                 | 1,407,085           |                   | 1,407,085           |
| Total Fund Balances                        | <u>1,407,085</u>    | <u>-</u>          | <u>1,407,085</u>    |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <u>\$ 1,644,781</u> | <u>\$ 187,348</u> | <u>\$ 1,832,129</u> |

**Total Fund Balances of Governmental Funds**

\$ 1,407,085

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

530,896

Long-term liabilities, including common school loans and accrued interest, are not due and payable in the current period and, therefore, are not reported in the funds.

(1,822,532)

**Net Assets of Governmental Activities**

\$ 115,449

See accompanying notes to financial statements.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2011**

**ASSETS**

|  | <u>General</u>                       | <u>Other<br/>Governmental<br/>Funds</u> | <u>Totals</u>       |
|--|--------------------------------------|---|---------------------|
| <b>ASSETS</b>                              |                                      |   |                     |
| Cash                                       | \$ (123,324)                         | \$ 132,549                              | \$ 9,225            |
| Accounts receivable                        | 1,622,854                            |   | 1,622,854           |
| <b>TOTAL ASSETS</b>                        | <u>\$ 1,499,530</u>                  | <u>\$ 132,549</u>                       | <u>\$ 1,632,079</u> |
|  |                                      |   |                     |
|  | <b>LIABILITIES AND FUND BALANCES</b> |   |                     |
| <b>LIABILITIES</b>                         |                                      |   |                     |
| Accounts payable and other                 | \$ 51,027                            | \$ 132,549                              | \$ 183,576          |
| Accrued expenses                           | 268,912                              |   | 268,912             |
| Total Liabilities                          | <u>319,939</u>                       | <u>132,549</u>                          | <u>452,488</u>      |
| <b>FUND BALANCES</b>                       |                                      |   |                     |
| Unassigned                                 | 1,179,591                            |   | 1,179,591           |
| Total Fund Balances                        | <u>1,179,591</u>                     | <u>-</u>                                | <u>1,179,591</u>    |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <u>\$ 1,499,530</u>                  | <u>\$ 132,549</u>                       | <u>\$ 1,632,079</u> |

**Total Fund Balances of Governmental Funds**

\$ 1,179,591

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

615,199

Long-term liabilities, including common school loans and accrued interest, are not due and payable in the current period and, therefore, are not reported in the funds.

(1,751,349)

**Net Assets of Governmental Activities**

\$ 43,441

See accompanying notes to financial statements.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2012**

|   | <u>General</u>      | <u>Title I<br/>FY 2011-12</u> | <u>Charter<br/>Facilities<br/>Grant</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Totals</u>       |
|---|---------------------|-------------------------------|---|---|---------------------|
| <b>REVENUES</b>                             |                     |                               |   |   |                     |
| Local sources                               | \$ 18,513           |                               |   | \$ 4,388                                | \$ 22,901           |
| State sources                               | 3,013,000           |                               |   | 35,810                                  | 3,048,810           |
| Federal sources                             | 89,814              | \$ 450,732                    | \$ 228,992                              | 249,846                                 | 1,019,384           |
| <b>Total Revenues</b>                       | <u>3,121,327</u>    | <u>450,732</u>                | <u>228,992</u>                          | <u>290,044</u>                          | <u>4,091,095</u>    |
| <b>EXPENDITURES</b>                         |                     |                               |   |   |                     |
| Current:                                    |                     |                               |   |   |                     |
| Instruction                                 | 911,686             | 363,523                       |   | 217,375                                 | 1,492,584           |
| Support services                            | 1,775,201           | 87,209                        |   | 24,359                                  | 1,886,769           |
| Noninstructional services                   | 22,847              |                               |   |   | 22,847              |
| Facilities acquisition and construction     | 131,008             |                               | 228,992                                 |   | 360,000             |
| Debt service:                               |                     |                               |   |   |                     |
| Principal                                   | 10,857              |                               |   |   | 10,857              |
| Interest                                    | 742                 |                               |   |   | 742                 |
| Capital outlay:                             |                     |                               |   |   |                     |
| Capital outlay                              | 59,847              |                               |   | 48,310                                  | 108,157             |
| <b>Total Expenditures</b>                   | <u>2,912,188</u>    | <u>450,732</u>                | <u>228,992</u>                          | <u>290,044</u>                          | <u>3,881,956</u>    |
| <b>Excess of Revenues over Expenditures</b> | <u>209,139</u>      | <u>-</u>                      | <u>-</u>                                | <u>-</u>                                | <u>209,139</u>      |
| <b>OTHER FINANCING SOURCES</b>              |                     |                               |   |   |                     |
| Debt financing obtained                     | 18,355              |                               |   |   | 18,355              |
| <b>Total Other Financing Sources</b>        | <u>18,355</u>       |                               |   |   | <u>18,355</u>       |
| <b>NET CHANGE IN FUND BALANCES</b>          | 227,494             | -                             | -                                       | -                                       | 227,494             |
| <b>FUND BALANCES - BEGINNING OF YEAR</b>    | 1,179,591           | -                             | -                                       | -                                       | 1,179,591           |
| <b>FUND BALANCES - END OF YEAR</b>          | <u>\$ 1,407,085</u> | <u>\$ -</u>                   | <u>\$ -</u>                             | <u>\$ -</u>                             | <u>\$ 1,407,085</u> |

**Net Change in Fund Balances of Governmental Funds** \$ 227,494

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (84,303)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. (7,498)

Government funds report interest payments as expenditures. However, in the statement of activities, the interest is expensed as incurred. (63,685)

**Change in Net Assets of Governmental Activities** \$ 72,008

See accompanying notes to financial statements.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2011**

|   | <u>General</u>      | <u>Title I<br/>FY 2010-11</u> | <u>Charter<br/>Facilities<br/>Grant</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Totals</u>       |
|---|---------------------|-------------------------------|---|---|---------------------|
| <b>REVENUES</b>                             |                     |                               |   |   |                     |
| Local sources                               | \$ 37,269           |                               |   | \$ 5,882                                | \$ 43,151           |
| State sources                               | 2,889,560           |                               |   | 12,256                                  | 2,901,816           |
| Federal sources                             | 38,565              | \$ 431,023                    | \$ 108,000                              | 310,140                                 | 887,728             |
| <b>Total Revenues</b>                       | <u>2,965,394</u>    | <u>431,023</u>                | <u>108,000</u>                          | <u>328,278</u>                          | <u>3,832,695</u>    |
| <b>EXPENDITURES</b>                         |                     |                               |   |   |                     |
| Current:                                    |                     |                               |   |   |                     |
| Instruction                                 | 960,288             | 311,875                       |   | 75,717                                  | 1,347,880           |
| Support services                            | 1,675,349           | 110,512                       |   | 118,216                                 | 1,904,077           |
| Noninstructional services                   | 25,963              | 1,000                         |   | 167,138                                 | 194,101             |
| Facilities acquisition and construction     | 252,000             |                               | 108,000                                 |   | 360,000             |
| Capital outlay:                             |                     |                               |   |   |                     |
| Capital outlay                              | 119,492             | 11,403                        |   |   | 130,895             |
| <b>Total Expenditures</b>                   | <u>3,033,092</u>    | <u>434,790</u>                | <u>108,000</u>                          | <u>361,071</u>                          | <u>3,936,953</u>    |
| <b>Excess of Expenditures over Revenues</b> | <u>(67,698)</u>     | <u>(3,767)</u>                | <u>-</u>                                | <u>(32,793)</u>                         | <u>(104,258)</u>    |
| <b>OTHER FINANCING SOURCES</b>              |                     |                               |   |   |                     |
| Transfers in (out)                          |                     | 3,767                         |   | (3,767)                                 |                     |
| <b>Total Other Financing Sources</b>        | <u>-</u>            | <u>3,767</u>                  |   | <u>(3,767)</u>                          | <u>-</u>            |
| <b>NET CHANGE IN FUND BALANCES</b>          | <u>(67,698)</u>     | <u>-</u>                      | <u>-</u>                                | <u>(36,560)</u>                         | <u>(104,258)</u>    |
| <b>FUND BALANCES - BEGINNING OF YEAR</b>    | 1,247,289           | -                             | -                                       | 36,560                                  | 1,283,849           |
| <b>FUND BALANCES - END OF YEAR</b>          | <u>\$ 1,179,591</u> | <u>\$ -</u>                   | <u>\$ -</u>                             | <u>\$ -</u>                             | <u>\$ 1,179,591</u> |

**Net Change in Fund Balances of Governmental Funds** \$ (104,258)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. (66,511)

Government funds report interest payments as expenditures. However, in the statement of activities, the interest is expensed as incurred. (63,685)

**Change in Net Assets of Governmental Activities** \$ (234,454)

See accompanying notes to financial statements.

## 21ST CENTURY CHARTER SCHOOL @ GARY, INC.

### NOTES TO FINANCIAL STATEMENTS June 30, 2012 and 2011

#### NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

21st Century Charter School @ Gary, Inc. (the School) is a nonprofit corporation established to operate a charter school. The School is dedicated to ensure that all students show growth in character, academics, life skills, the arts, and wellness using teaching skills tailored to meet the needs of each student.

The School was established under the laws of the State of Indiana, and operates under a Board of School Directors form of government.

The accompanying financial statements of the School as of June 30, 2012 and 2011, and for the fiscal years then ended, conform with accounting principles generally accepted in the United States as applied to governments. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The GASB's Codification of Governmental Accounting and Financial Reporting Standards document these principles. The School's significant accounting policies are as follows:

**Reporting Entity:** The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization's governing body and is able to impose its will on the organization, or if the organization provided benefits to, or imposes financial burdens on the School.

The School's financial reporting entity is composed of the following:

- Primary Government: 21st Century Charter School @ Gary, Inc.

**School-Wide Financial Statements:** The school-wide financial statements (i.e., the Statements of Net Assets and Statements of Activities) report information on all activities of the School. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from Business-type activities, which rely to a significant extent on fees and charges for support. The School has no Business-type activities.

**Fund Financial Statements:** Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds and proprietary funds. The School has no proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

## NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School reports the following major governmental funds:

- The General Fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- Title I FY 2010-11 Fund accounts for federal awards received to improve the learning skills of children who are at risk of not meeting academic standards.
- Title I FY 2011-12 Fund accounts for federal awards received to improve the learning skills of children who are at risk of not meeting academic standards.
- Charter Facilities Grant Fund accounts for federal awards received to assist with facilities funding.

**Basis of Accounting:** The school-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated non-exchange revenues and voluntary non-exchange revenues and certain grants and entitlements are recognized in the period when all applicable eligibility requirements have been met.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. The governmental funds recognize expenditures for these liabilities to the extent they will be matured or liquidated with expendable financial resources.

Interfund activity is reported as either services provided or transfers. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. All other interfund transactions are treated as transfers. Transfers between governmental or between proprietary funds are netted as part of the reconciliation to the school-wide financial statements.

**Estimates:** Management uses estimates and assumptions in preparing financial statements in conformity with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Net Assets and Fund Balances:** Net assets are displayed in three components:

- The Invested in Capital Assets component consists of property or infrastructure that the School acquired, net of the related debt.
- The Restricted Net Assets component represents net assets with constraints placed on their use that are either (i) externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or (ii) imposed by law through constitutional provisions or enabling legislation, as defined in GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*.
- The Unrestricted Net Assets component consists of net assets that do not meet the definition of the preceding two components.

**NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Governmental Funds: Fund balances can be displayed in five components:

- Non-spendable fund balance includes amounts not in spendable form.
- Amounts listed in restricted fund balance are subject to constraints imposed by external organizations. For purposes of determining the ending fund balance, restricted funds are considered to be spent first when an expenditure occurs for which both restricted and unrestricted amounts are available.
- Committed fund balance is amounts that are designated by the School's Board resolution to be used for a specific purpose. If expenditure occurs for which committed, assigned or unassigned amounts are available, committed amounts are considered to be spent first, followed by assigned and then unassigned funds.
- Assigned fund balance amounts are available for commitment by the School's Board resolution, to projects.
- Unassigned fund balance is the residual classification for the general fund.

When both restricted and unrestricted resources are available for use, the School's policy is to use restricted resources first, then unrestricted resources as they are needed.

**Cash** includes deposits in financial institutions.

**Accounts Receivable:** Accounts receivable balances consist of amounts billed or billable for services provided, net of an allowance for doubtful accounts. Accounts receivable are recorded at net realizable value when earned.

An allowance for uncollectible accounts is determined by management based upon historical losses, specific circumstances, and general economic conditions. Periodically, management reviews accounts receivable and considers the need for an allowance based on current circumstances. Management has estimated that no allowance was necessary at June 30, 2012 and 2011.

**Capital Assets:** Capital assets are recorded at historical cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The School provides for depreciation on the straight-line method at rates designed to depreciate the cost of assets over estimated useful lives as follows:

|                       |            |
|-----------------------|------------|
| Building improvements | 39 years   |
| Equipment             | 3-15 years |

**Compensated Absences:** All full-time employees receive compensation for vacations, holidays, illness and certain other qualifying absences. All compensated leave benefits are nonvesting and have not been accrued, with the exception of vacation.

**NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Tax Status:** 21st Century Charter School @ Gary, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for income taxes has been included in the financial statements. In addition, 21st Century Charter School @ Gary, Inc. has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income in fiscal year 2012 or 2011.

The School files U.S. federal and state of Indiana tax returns. The School is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2008.

**Subsequent Events:** The School has evaluated the financial statements for subsequent events occurring through November 2, 2012, the date the financial statements were available to be issued. See Note 8.

**NOTE 2 - BUDGETS**

The operating budget is initially prepared by the Treasurer and approved by the Board of Directors of the School.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

**NOTE 4 - CAPITAL ASSETS**

Capital assets used in governmental activities for the year ended June 30, 2012 were as follows:

|                                  | Balance at<br>July 1, 2011 | Additions          | Retirements          | Balance at<br>June 30, 2012 |
|----------------------------------|----------------------------|--------------------|----------------------|-----------------------------|
| Depreciable capital assets:      |                            |                    |                      |                             |
| Building improvements            | \$ 93,857                  |                    |                      | \$ 93,857                   |
| Equipment                        | <u>1,357,629</u>           | <u>\$ 108,157</u>  |                      | <u>1,465,786</u>            |
| Total depreciable capital assets | 1,451,486                  | 108,157            |                      | 1,559,643                   |
| Less: Accumulated depreciation   | <u>836,287</u>             | <u>192,460</u>     | <u>          </u>    | <u>1,028,747</u>            |
| Total Capital Assets, net        | <u>\$ 615,199</u>          | <u>\$ (84,303)</u> | <u>\$           </u> | <u>\$ 530,896</u>           |

Capital assets used in governmental activities for the year ended June 30, 2011 were as follows:

|                                  | Balance at<br>July 1, 2010 | Additions          | Retirements          | Balance at<br>June 30, 2011 |
|----------------------------------|----------------------------|--------------------|----------------------|-----------------------------|
| Depreciable capital assets:      |                            |                    |                      |                             |
| Building improvements            | \$ 93,857                  |                    |                      | \$ 93,857                   |
| Equipment                        | <u>1,226,734</u>           | <u>\$ 130,895</u>  |                      | <u>1,357,629</u>            |
| Total depreciable capital assets | 1,320,591                  | 130,895            |                      | 1,451,486                   |
| Less: Accumulated depreciation   | <u>638,882</u>             | <u>197,405</u>     | <u>          </u>    | <u>836,287</u>              |
| Total Capital Assets, net        | <u>\$ 681,709</u>          | <u>\$ (66,510)</u> | <u>\$           </u> | <u>\$ 615,199</u>           |

**NOTE 5 - LONG-TERM DEBT ACTIVITY**

Long-term debt of governmental activities included the following at June 30, 2012 and 2011:

|  | <b>2012</b>         | <b>2011</b>        |
|--|---------------------|--------------------|
| Loan payable in semi-annual installments, including interest computed at 4%, through maturity in July 2030. (A)                    | \$ 1,010,581        | \$ 1,010,581       |
| Loan payable in semi-annual installments, including interest computed at 4%, through maturity in January 2031. (A)                 | 250,798             | 250,798            |
| Loan payable in semi-annual installments, including interest computed at 4%, through maturity in July 2031. (A)                    | 330,756             | 330,756            |
| Loan payable in monthly installments, including interest computed at 5.45%, through maturity in August 2014. Secured by equipment. | <u>13,557</u>       | <u>          </u>  |
| Total Long-term Debt   | <u>\$ 1,605,692</u> | <u>\$1,592,135</u> |

(A) The State of Indiana advanced funds from the Common School Fund to assist the School during its initial years of operations. Under the terms of the agreements with the State of Indiana, the School agreed to repay these loans through deductions from the School's share of State Tuition Support. In each of 2009 and 2011, the Common School Fund granted a two-year moratorium on loan payments. Payments will commence on July 1, 2013.

At June 30, 2012, the debt service requirements of loans payable for governmental activities were as follows:

| <u>Year Ending</u>            | <u>Total<br/>Principal</u> | <u>Total<br/>Interest</u> | <u>Total<br/>Debt<br/>Service</u> |
|-------------------------------|----------------------------|---------------------------|-----------------------------------|
| June 30, 2013                 | \$ 6,059                   | \$ 589                    | \$ 6,648                          |
| June 30, 2014                 | 95,904                     | 317,597                   | 413,501                           |
| June 30, 2015                 | 90,607                     | 59,181                    | 149,788                           |
| June 30, 2016                 | 89,507                     | 55,593                    | 145,100                           |
| June 30, 2017                 | 89,507                     | 52,013                    | 141,520                           |
| June 30, 2018 – June 30, 2022 | 447,535                    | 206,358                   | 653,893                           |
| June 30, 2023 – June 30, 2027 | 447,535                    | 116,852                   | 564,387                           |
| June 30, 2028 – June 30, 2032 | <u>339,038</u>             | <u>29,216</u>             | <u>368,254</u>                    |
|                               | <u>\$1,605,692</u>         | <u>\$837,399</u>          | <u>\$2,443,091</u>                |

Total interest paid during the years ended June 30, 2012 and 2011 was \$742 and \$0, respectively.

**NOTE 5 - LONG-TERM DEBT ACTIVITY (CONTINUED)**

Changes in long-term liabilities of governmental activities for the year ended June 30, 2012, were as follows:

|                  | <u>Balance<br/>Beginning<br/>of Year</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance<br/>End of Year</u> | <u>Amount<br/>Due After<br/>One Year</u> |
|------------------|--|------------------|------------------|--------------------------------|--|
| Accrued interest | \$ 159,214                               | \$ 63,685        | \$               | \$ 222,899                     | \$ 222,899                               |
| Notes payable    | <u>1,592,135</u>                         | <u>18,355</u>    | <u>4,798</u>     | <u>1,605,692</u>               | <u>1,599,633</u>                         |
|                  | <u>\$1,751,349</u>                       | <u>\$ 82,040</u> | <u>\$ 4,798</u>  | <u>\$1,828,591</u>             | <u>\$1,822,532</u>                       |

Changes in long-term liabilities of governmental activities for the year ended June 30, 2011, were as follows:

|                  | <u>Balance<br/>Beginning<br/>of Year</u> | <u>Increases</u>            | <u>Decreases</u>            | <u>Balance<br/>End of Year</u> | <u>Amount<br/>Due After<br/>One Year</u> |
|------------------|--|-----------------------------|-----------------------------|--------------------------------|--|
| Accrued interest | \$ 95,528                                | \$ 63,686                   | \$                          | \$ 159,214                     | \$ 159,214                               |
| Notes payable    | <u>1,592,135</u>                         | <u>                    </u> | <u>                    </u> | <u>1,592,135</u>               | <u>1,592,135</u>                         |
|                  | <u>\$1,687,663</u>                       | <u>\$ 63,686</u>            | <u>\$ -</u>                 | <u>\$1,751,349</u>             | <u>\$1,751,349</u>                       |

**NOTE 6 - MANAGEMENT AND CHARTER AGREEMENTS**

The School has a management agreement with Greater Educational Opportunities Foundation (GEOF). Under the management agreement, GEOF charges administrative and per student fees in exchange for the management, operation, administration, payroll and accounting services provided. During the years ended June 30, 2012 and 2011, the School paid GEOF fees of \$553,122 and \$496,080, respectively. As part of the management services provided, GEOF acts as the payor of certain operating expenses, which are reimbursed to GEOF by the School. The School’s board retains final authority and responsibility for financial and budgetary commitments. Under this arrangement, the School had paid an excess of \$74,973 at June 30, 2012 and 2011, which will be applied against future expenses.

The School leases space from Greater Education Opportunities Foundation Holdings Indiana, LLC (GEOFHIN) under a long-term noncancellable operating lease that expires on August 31, 2014. Rent expense totaled \$395,139 for the year ended June 30, 2012, of which \$360,000 was to GEOFHIN. Rent expense totaled \$378,784 for the year ended June 30, 2011, of which \$360,000 was to GEOFHIN. Accrued rental payments to GEOFHIN amounted to \$60,000 at June 30, 2011.

At June 30, 2012, the future minimum rental payments required from the School for the long-term noncancellable operating lease with GEOFHIN were as follows:

| <b>Payable In</b> | <b>Rental Payments</b> |
|-------------------|------------------------|
| 2013              | \$360,000              |
| 2014              | 360,000                |
| 2015              | <u>60,000</u>          |
|                   | <u>\$780,000</u>       |

## **NOTE 6 - MANAGEMENT AND CHARTER AGREEMENTS (CONTINUED)**

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay Ball State University an annual administrative fee equal to 3% of State tuition support, along with other licensing fees. Payments under this charter agreement were \$84,184 and \$80,288 in the years ended June 30, 2012 and 2011, respectively.

## **NOTE 7 - PENSION PLANS**

### 403(b) Plan

The School's faculty and certain administrative employees are participants in a 403(b) tax deferred annuity retirement plan. All participants may contribute to the Plan. There were no employer match contributions to the Plan in the years ended June 30, 2012 and 2011.

### Indiana Public Retirement System

#### ***Plan Description***

The School elected to become a participating employer in the Indiana Public Retirement System (INPRS). INPRS resulted from legislation passed in 2010 that merged the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF), with the merger of the funds being effective as of July 1, 2011. The School contributes to INPRS, an agent multiple-employer retirement system that acts as a common investment and administrative agent for units of state and local government in Indiana. INPRS is governed by state statutes I.C.S. 5-10.2 and 5-10.3. As such, it is INPRS's responsibility to administer the law in accordance with the expressed intent of the Indiana General Assembly. INPRS is a qualified plan under Internal Revenue Code Section 401(a) and is tax exempt.

INPRS is a contributory defined benefit plan that covers substantially all School employees. INPRS retirement benefits vest after 10 years of service. Senate Bill 74 enabled INPRS participants to be eligible for early retirement with 100% of the defined benefit pension if certain conditions were met. A participant may retire with full benefits at age 60 with 15 or more years of service or at age 55 if the participant's age plus years of service equals 85 or more (Rule of 85). If neither of the above conditions is met, a participant may retire with 100% of the pension benefit at age 65 with 10 or more years of service. This annual pension benefit is equal to 1.1% times the average annual salary times the number of years and months of INPRS-covered employment. The average annual salary used for calculating the pension benefit is an average of the participant's highest five years of employment earning within the 10 years preceding retirement.

Participants who retire between the ages of 50 and 65 with 15 or more years of service receive a pension benefit that is reduced by various percentages according to the participant's age.

Participants have two choices regarding their annuity savings account. They may elect to receive the contributions and accumulated earnings in a lump sum at retirement, or, they may choose to receive the annuity amount as a monthly supplement to their employer-provided pension described in the paragraph above.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

## **NOTE 7 - PENSION PLANS (CONTINUED)**

### ***Funding Policy***

The School contributes the participant's required contribution of 3% of their annual salary to an annuity savings account that may be withdrawn at any time with interest should a participant terminate employment. The School is required by State statute to contribute at an actuarially determined rate. The current rate is 7.0% of annual covered payroll. The contribution requirements of participants are determined by State statute.

### ***Annual Pension Cost***

For the 2011 plan year, the School's annual contribution of \$42,996 was more than the required contribution of \$31,473. The INPRS funding policy provides for actuarially determined periodic contributions at rates that change so that sufficient assets will be available to pay benefits when due. The required contributions were determined as part of the June 30, 2011 actuarial valuation using the entry age normal cost method. The asset valuation method is 4-year smoothing of gains/losses on market value with a 20% corridor. The actuarial assumptions included (a) a rate of return on investment of present and future assets of 7.0% per year, compounded annually; (b) projected salary increases based on INPRS experience from 2005 to 2010; and (c) assumed annual post retirement benefit increases of 1.0%. INPRS uses the method of establishing a new gain or loss base each year to amortize the unfunded liability over a 30-year open period.

## **NOTE 8 - SUBSEQUENT EVENTS**

In October 2012, the School entered into an agreement to purchase the space leased from GEOFHIN for \$3,500,000. The School has also entered into an agreement with an architect to perform certain design and construction coordination services.

**REQUIRED SUPPLEMENTARY INFORMATION**

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**RETIREMENT PLAN SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS (UNAUDITED)**

**Year Ended June 30, 2012**

| <u>Asset<br/>Valuation Date</u> | <u>(1)<br/>Actuarial<br/>Value<br/>of Assets</u> | <u>(2)<br/>Actuarial<br/>Accrued<br/>Liability (AAL)<br/>Entry Age</u> | <u>(2-1)<br/>(Unfunded)<br/>Overfunded<br/>AAL<br/>(UAAL)</u> | <u>(1/2)<br/>Funded<br/>Ratio</u> | <u>(3)<br/>Covered<br/>Payroll</u> | <u>[(2-1)/3]<br/>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll</u> | <u>Annual<br/>Pension<br/>Cost<br/>(APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> |
|---------------------------------|--|--|---|-----------------------------------|------------------------------------|--|--|--|
| June 30, 2011                   | \$ 188,789                                       | \$ 151,432   | \$37,357  | 100%                              | \$ 605,366                         | 0%   | \$ 31,601                                    | 136%   |
| June 30, 2010                   | 182,759  | 122,074  | 60,685  | 100%                              | 552,323                            | 0%   | 23,450                                       | 160%   |
| June 30, 2009                   | 143,684  | 93,858   | 49,826  | 100%                              | 433,640                            | 0%   | 26,130                                       | 125%   |

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**SCHEDULE OF ACTUAL OPERATING REVENUES AND EXPENSES  
COMPARED TO BUDGET – MODIFIED CASH BASIS  
Year Ended June 30, 2012**

**Budget Basis of Accounting:** The School’s budget process is based on a modified cash basis and accounts for certain transactions on a basis other than GAAP. The most significant differences between the modified cash basis and the GAAP basis are the manner in which revenues and expenses are recorded.

The following table shows budget and actual financial results reported under the modified cash basis of accounting.

|                                    | <u>Original<br/>Budget<br/>Total</u> | <u>Actual<br/>Total</u> | <u>Difference</u> |
|------------------------------------|--------------------------------------|-------------------------|-------------------|
| <b>Revenue</b>                     |                                      |                         |                   |
| State funding                      | \$2,983,225                          | \$3,048,810             | \$ 65,585         |
| Federal sources                    | 648,000                              | 1,019,384               | 371,384           |
| Other funding                      |                                      | 22,901                  | 22,901            |
| Total Revenues                     | <u>3,631,225</u>                     | <u>4,091,095</u>        | <u>459,870</u>    |
| <b>Expenses</b>                    |                                      |                         |                   |
| Salaries, wages and benefits       | 1,686,223                            | 1,651,983               | (34,240)          |
| Professional services              | 609,122                              | 662,959                 | 53,837            |
| Title 1                            | 490,000                              | 411,960                 | (78,040)          |
| Occupancy and building maintenance | 135,000                              | 189,766                 | 54,766            |
| Rent                               | 360,000                              | 360,000                 | -                 |
| Bus and transportation             | 27,000                               | 454                     | (26,546)          |
| Office, organizational and other   | 240,937                              | 461,079                 | 220,142           |
| Extracurricular                    | 15,000                               | 23,999                  | 8,999             |
| Total Expenses                     | <u>3,563,282</u>                     | <u>3,762,200</u>        | <u>198,918</u>    |
| <b>Net Revenues Over Expenses</b>  | <u>\$ 67,943</u>                     | <u>\$ 328,895</u>       | <u>\$ 260,952</u> |

The modified cash basis, as presented above, does not include depreciation expense of \$192,460 and interest expense of \$64,427 which are not budgeted items.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**SCHEDULE OF ACTUAL OPERATING REVENUES AND EXPENSES  
 COMPARED TO BUDGET – MODIFIED CASH BASIS  
 Year Ended June 30, 2011**

**Budget Basis of Accounting:** The School’s budget process is based on a modified cash basis and accounts for certain transactions on a basis other than GAAP. The most significant differences between the modified cash basis and the GAAP basis are the manner in which revenues and expenses are recorded.

The following table shows budget and actual financial results reported under the modified cash basis of accounting.

|                                    | <b>Original<br/>Budget<br/>Total</b> | <b>Actual<br/>Total</b> | <b>Difference</b>  |
|------------------------------------|--------------------------------------|-------------------------|--------------------|
| <b>Revenue</b>                     |                                      |                         |                    |
| State funding                      | \$2,831,124                          | \$2,901,816             | \$ 70,692          |
| Federal sources                    | 108,000                              | 887,728                 | 779,728            |
| Other funding                      |                                      | 43,151                  | 43,151             |
| Total Revenues                     | <u>2,939,124</u>                     | <u>3,832,695</u>        | <u>893,571</u>     |
| <b>Expenses</b>                    |                                      |                         |                    |
| Salaries, wages and benefits       | 1,503,458                            | 2,106,453               | 602,995            |
| Professional services              | 489,412                              | 683,031                 | 193,619            |
| Occupancy and building maintenance | 98,645                               | 170,492                 | 71,847             |
| Rent                               | 360,000                              | 360,000                 | -                  |
| Bus and transportation             | 47,000                               | 4,657                   | (42,343)           |
| Office, organizational and other   | 221,194                              | 474,584                 | 253,390            |
| Extracurricular                    | 9,800                                | 6,841                   | (2,959)            |
| Total Expenses                     | <u>2,729,509</u>                     | <u>3,806,058</u>        | <u>1,076,549</u>   |
| <b>Net Revenues Over Expenses</b>  | <u>\$ 209,615</u>                    | <u>\$ 26,637</u>        | <u>\$(182,978)</u> |

The modified cash basis, as presented above, does not include depreciation expense of \$197,406 and interest expense of \$63,685 which are not budgeted items.

**OTHER REPORTS AND SUPPLEMENTARY INFORMATION**

*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  
21st Century Charter School @ Gary, Inc.

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of 21st Century Charter School @ Gary, Inc. (the School) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 2, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of 21st Century Charter School @ Gary, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered 21st Century Charter School @ Gary, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 21st Century Charter School @ Gary, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of 21st Century Charter School @ Gary, Inc.'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-01 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 21st Century Charter School @ Gary, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 2012-02.

We noted certain matters that we reported to management of 21st Century Charter School @ Gary, Inc. in a separate letter dated November 2, 2012.

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of 21st Century Charter School @ Gary, Inc.'s Board of Directors, management, others within the School, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Katz, Sapp & Miller, LLP*

Indianapolis, Indiana  
November 2, 2012

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**  
**SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS**  
**Years Ended June 30, 2011 and 2012**

|  | Federal<br>CFDA<br>Number | Pass-through<br>Entity<br>Identifying<br>Number | Total Federal<br>Expenditures<br>June 30, 2011 | Total Federal<br>Expenditures<br>June 30, 2012 |
|--|---------------------------|---|--|--|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>  |                           |   |  |  |
| Passed through the Indiana Department of Education:  |                           |   |  |  |
| Child Nutrition Cluster  |                           |   |  |  |
| School Breakfast Program   | 10.553                    | FY 2010-2011                                    | \$ 24,023                                      | \$ 816   |
| National School Lunch Program  | 10.555                    | FY 2010-2011                                    | 127,779  | 4,109  |
| Total for Child Nutrition Cluster  |                           |   | <u>151,802</u>                                 | <u>4,925</u>                                   |
| ARRA - Child Nutrition Discretionary Grants Limited Availability National School Lunch Program Assistance Grant* |                           |   |  |  |
| Total for U.S. Department of Agriculture   | 10.579                    | FY 2009-2010                                    | <u>15,918</u>                                  |  |
|  |                           |   | <u>167,720</u>                                 | <u>4,925</u>                                   |
| <b>U.S. DEPARTMENT OF EDUCATION</b>  |                           |   |  |  |
| Passed through the Indiana Department of Education:  |                           |   |  |  |
| Title I, Part A Cluster  |                           |   |  |  |
| Title I Grants to Local Educational Agencies   | 84.010                    | FY 2009-2010                                    | 2,456  |  |
| Title I Grants to Local Educational Agencies   | 84.010                    | FY 2010-2011                                    | 434,790  |  |
| Title I Grants to Local Educational Agencies   | 84.010                    | FY 2011-2012                                    |  | 450,732  |
| School Improvement Grant   | 84.010                    | FY 2009-2010                                    | 4,000  |  |
| School Improvement Grant   | 84.010                    | FY 2010-2011                                    | <u>55,000</u>                                  |  |
| Total for program  |                           |   | 496,246  | 450,732  |
| ARRA - Title I Grants to Local Educational Agencies*   | 84.389                    | FY 2009-2010                                    | <u>11,149</u>                                  |  |
| Total for Title I, Part A Cluster  |                           |   | <u>507,395</u>                                 | <u>450,732</u>                                 |
| Special Education Cluster (IDEA)   |                           |   |  |  |
| Special Education Grants to States   | 84.027                    | FY 2010-2011                                    | 50,403   |  |
| Special Education Grants to States   | 84.027                    | FY 2011-2012                                    |  | 39,196   |
| Total for program  |                           |   | <u>50,403</u>                                  | <u>39,196</u>                                  |
| ARRA - Special Education Grants to States*   | 84.391                    | FY 2011-2012                                    |  | <u>89,603</u>                                  |
| Total for Special Education Cluster  |                           |   | 50,403   | 128,799  |
| Education Technology State Grants Cluster  |                           |   |  |  |
| ARRA - Education Technology State Grants*  | 84.386                    | FY 2009-2010                                    | <u>15,918</u>                                  |  |
| Improving Teacher Quality State Grants   | 84.367                    |   | <u>34,038</u>                                  | <u>69,195</u>                                  |
| Education Job Fund   | 84.410                    |   |  | <u>91,483</u>                                  |
| Charter Schools  | 84.282                    | FY 2010-2011                                    | 108,000  |  |
| Charter Schools  | 84.282                    | FY 2011-2012                                    |  | <u>228,992</u>                                 |
| Total for program  |                           |   | <u>108,000</u>                                 | <u>228,992</u>                                 |
| ARRA - School Improvement Grants*  | 84.377                    | FY 2012-2013                                    |  | <u>15,000</u>                                  |
| Total for U.S. Department of Education   |                           |   | <u>715,754</u>                                 | <u>984,201</u>                                 |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>  |                           |   | <u>\$ 883,474</u>                              | <u>\$ 989,126</u>                              |

\* Grant relates to the American Recovery and Reinvestment Act of 2009

See accompanying note to schedules of expenditures of federal awards.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**NOTE TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS  
Years Ended June 30, 2012 and 2011**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedules of expenditures of federal awards include the federal grant activity of 21st Century Charter School @ Gary, Inc. and are presented on the accrual basis of accounting. The information in these schedules are presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the financial statements

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

*Independent Auditors' Report on Compliance with  
Requirements that Could Have a Direct and  
Material Effect on Each Major Program and  
on Internal Control over Compliance  
in Accordance with OMB Circular A-133*

Board of Directors  
21st Century Charter School @ Gary, Inc.

### **Compliance**

We have audited 21st Century Charter School @ Gary, Inc.'s compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of 21st Century Charter School @ Gary, Inc.'s major federal programs for the years ended June 30, 2012 and 2011. 21st Century Charter School @ Gary, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 21st Century Charter School @ Gary, Inc.'s management. Our responsibility is to express an opinion on 21st Century Charter School @ Gary, Inc.'s compliance based on our audits.

We conducted our audits of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 21st Century Charter School @ Gary, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion. Our audits do not provide a legal determination of 21st Century Charter School @ Gary, Inc.'s compliance with those requirements.

In our opinion, 21st Century Charter School @ Gary, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2012 and 2011.

### **Internal Control Over Compliance**

Management of 21st Century Charter School @ Gary, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audits, we considered 21st Century Charter School @ Gary, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 21st Century Charter School @ Gary, Inc.'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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the 21st Century Charter School @ Gary, Inc.'s Board of Directors, management, others within the School, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Katz, Agnew & Miller, LLP*

Indianapolis, Indiana  
November 2, 2012

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Years Ended June 30, 2012 and 2011**

**SECTION I – Summary of Auditors’ Results**

*Financial Statements*

Type of auditor’s report issued [*unqualified, qualified, adverse, or disclaimer*]: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  yes  none reported

Type of auditor’s report issued on compliance for major programs [*unqualified, qualified, adverse, or disclaimer*]: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?  yes  no

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program</u>  |
|---------------------|---|
| 84.010              | Title I, Part A Cluster - Title I Grants to Local Educational Agencies        |
| 84.010              | Title I, Part A Cluster - School Improvement Grant                            |
| 84.389              | Title I, Part A Cluster – ARRA - Title I Grants to Local Educational Agencies |
| 84.282              | Charter Schools   |

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
Years Ended June 30, 2012 and 2011**

SECTION I – Summary of Auditors' Results (Continued)

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

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes          ✓       no

SECTION II – Financial Statement Findings

**2012-01: Material Weakness in Internal Control over Financial Reporting**

*Criteria:* Misstatement of the Organization's financial statements should be detected and prevented by 21st Century Charter School @ Gary, Inc.'s internal control over financial reporting in a timely manner.

*Condition and Context:* During the course of our audit, we noted reconciliations of accounts to sub-ledger and other supporting documentation did not occur in a timely manner.

*Cause and Effect:* Due to change of accounting staff during the audit periods, financial records and account reconciliations were not prepared and reviewed in a timely manner. This resulted in errors to account balances as well as journal entries being posted in duplicate and funds drawn in excess of expenses.

*Recommendation:* We recommend the School evaluate accounting procedures to increase timely review and approval of manual journal entries, account reconciliations, and internal financial statements.

*Management Response:* Management agrees with this finding and will review accounting practices within the School.

SECTION III – Federal Award Findings and Questioned Costs

**2012-02: Cash Management - Grant funds were drawn but not spent during the grant period**

**Federal Agency: U.S. Department of Education**

**Federal Program Title: Special Education Cluster (IDEA)**

**Improving Teacher Quality State Grants**

**CFDA Number: 84.027 & 84.367**

**Pass-Through Entity: Indiana Department of Education**

**Award Number and Years: 10-9545(FY2009-10), 11-9545(FY2010-11) for Special Education Cluster and FY2009-10(FY2009-10) for Improving Teacher Quality State Grant**

*Criteria:* The DOE requires that funds drawn should be spent on allowable costs of the program during the grant period. The School should only draw funds for which they have expenses planned or previously expensed.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**Years Ended June 30, 2012 and 2011**

*Condition and Context:* We noted that two programs had significant fund balances and net income related to the grant programs. We were able to determine that these funds should have been repaid if not spent and the excess unspent funds were reclassified as accounts payable.

*Cause and Effect:* An instance of noncompliance exists, as funds were drawn from the grants in excess of related expenses.

*Recommendations:* The School should work with the DOE to determine the best solutions for repaying the funds or reducing future draws on existing grants.

## 21ST CENTURY CHARTER SCHOOL @ GARY, INC.

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS Years Ended June 30, 2012 and 2011

#### U.S. Department Education

**2010-03 Title I, Grants to Local Educational Agencies – CFDA 84.010  
Material Weakness in Internal Control over Compliance**

*Condition and Context:* For the school year 2008-2009, internal controls were not in place to adequately identify allowable costs and post payroll-related expenditures to the Title I Cluster.

*Recommendations:* It was recommended that the School implement adequate internal controls and procedures to ensure that information needed to support payroll expenses charged to the Title I Cluster can be substantiated.

*Status:* The School has implemented the recommendations.

**2010-04 Title I, Part A Cluster – CFDA 84.010, 84.389  
Material Weakness in Compliance and Internal Control over Compliance**

*Condition and Context:* For each of the Title I grant programs, no attempts were made by the School to reduce a subsequent drawdown to be in compliance with cash management requirements.

*Recommendations:* It was recommended that the School implement adequate internal controls and procedures to follow the Indiana Department of Education grant guidelines effective July 1, 2010, that require the School to spend the funds necessitating reimbursements on funds already spent.

*Status:* The School has implemented the recommendations.

**2010-05 Title I, Part A Cluster – CFDA 84.010, 84.389  
Material Weakness in Compliance and Internal Control over Compliance**

*Condition and Context:* When electronic equipment is purchased using the Title I, Part A Cluster funds, the IT Director places a tag with a sequential number on the item. However, the tag number is not used to identify the item on the list of capital assets maintained by the School Accounting Department or by the Title I, Part A Program Director.

*Recommendations:* It was recommended that the School maintain grant funded equipment records by individual asset item. The items listed should include the description of the items, the item's inventory tag number, cost, location, as well as the other information required by the grant guidelines.

*Status:* The School has implemented the recommendations.

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)**  
**Years Ended June 30, 2012 and 2011**

**2010-06 Title I, Part A Cluster – CFDA 84.010, 84.389**  
**Material Weakness in Compliance and Internal Control over Compliance**

*Condition and Context:* The School had not implemented controls sufficient for providing accurate and timely monitoring reports to the Indiana Department of Education. Such controls include posting expenditures as they occur to a separate fund established to account for the receipts, disbursements and cash balances of grant funds, preparing reports based upon the activities of those grant funds, and having someone other than the person preparing those reports review them for accuracy.

*Recommendations:* It was recommended that the School implement controls to allow for the timely posting of transactions to the appropriate funds. Additionally, another individual should review the reports making comparisons to the general ledger to ensure accuracy and timeliness.

*Status:* The School has implemented the recommendations.

CORRECTIVE ACTION PLAN

FINDINGS NO. 2012-02 CASH MANAGEMENT – COMPLIANCE

Federal Agency:  
Federal Programs:

U.S. Department of Education  
Special Education Cluster (IDEA)  
Improving Teacher Quality State Grants  
84.027  
84.367

CFDA Number:

Pass Through Entity:  
Auditee Contact Person:  
Title of Contact Person:  
Phone Number:  
Expected Completion Date:

Indiana Department of Education  
Dana Johnson  
Treasurer  
317-713-4207  
June 30, 2013

The school will follow the auditor's recommendation and work with the Indiana Department of Education and U.S. Department of Education to return the funds overdrawn or reduce future draws on existing grants.



Dana L. Johnson, Treasurer

**21ST CENTURY CHARTER SCHOOL @ GARY, INC.**

**OTHER REPORT**

The reports presented herein were prepared in addition to another report prepared for the School as listed below:

Supplemental Audit Report of 21st Century Charter School @ Gary, Inc.