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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

January 21, 2014

Charter School Board
Gary Middle College, Inc.
556 Washington St.
Gary, IN 46402

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. 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 Gary Middle College, Inc., as of June 30, 2013 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 finding in the report. Page 25 contains one current audit finding. Management's response is on page 25.

In addition to the report presented herein, a Supplemental Audit Report for Gary Middle College, 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

GARY MIDDLE COLLEGE, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
WITH SUPPLEMENTARY AND OTHER INFORMATION
June 30, 2013

GARY MIDDLE COLLEGE, INC.

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Independent Auditors' Report

Board of Directors
Gary Middle College, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gary Middle College, Inc. (collectively, the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the School's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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 Gary Middle College, Inc. as of June 30, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 11 and the schedule of actual operating revenues and expenses compared to budget – modified cash basis on page 22 be presented to supplement the basic financial statements. Such information, although not a 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2013, 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* in considering the School's internal control over financial reporting and compliance.

Katz, Sappun & Miller, LLP

Indianapolis, Indiana
December 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

GARY MIDDLE COLLEGE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) Year Ended June 30, 2013

Gary Middle College, Inc. (the School) is a public charter school located in Gary, Indiana. The School is structured around a blended learning approach and serves non-traditional high school students who want to obtain their high school diploma and attend college.

The accompanying financial statements of the School as of June 30, 2013, and for the fiscal year 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 year ended June 30, 2013. 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 2013 fiscal year include the following:

- Total revenues were \$1,839,910 as compared to total expenses of \$1,719,602
- The total net position increased by \$120,308 from the prior year's ending balance.

GARY MIDDLE COLLEGE, INC.

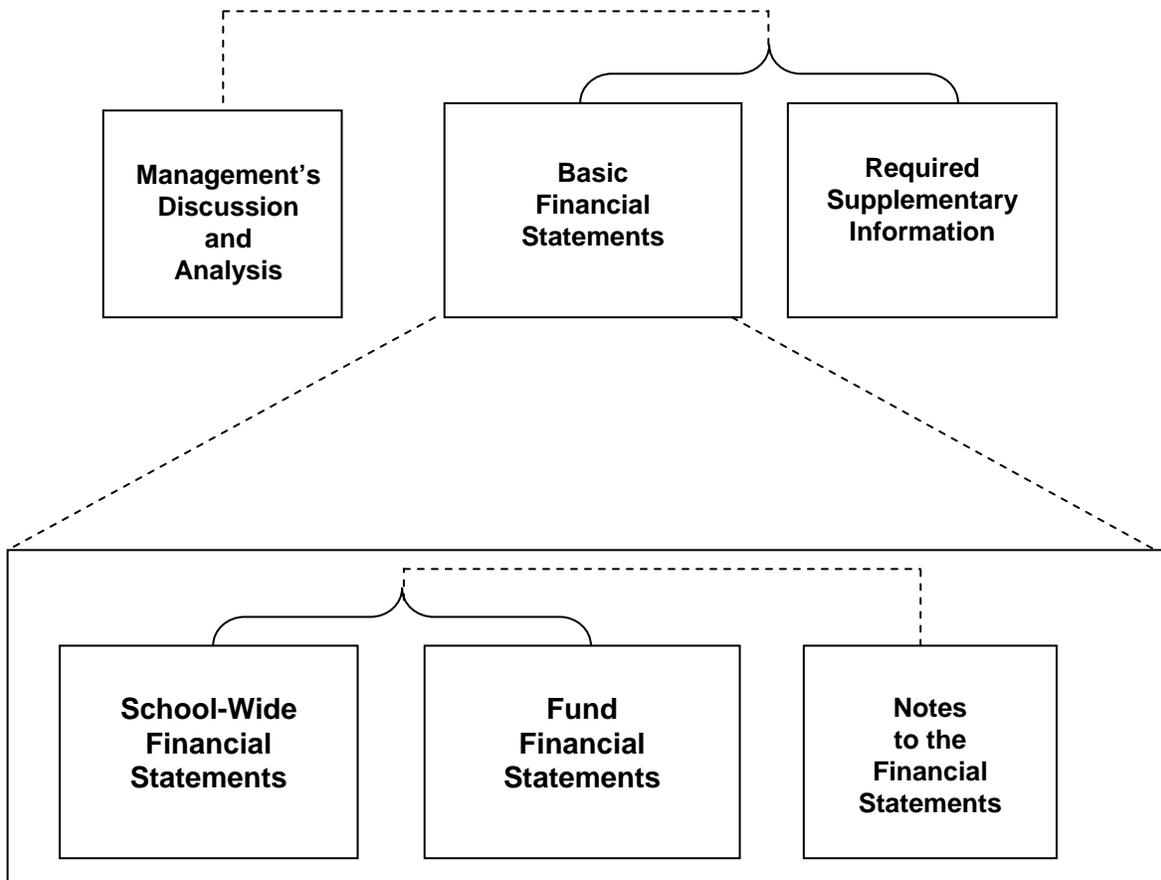
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Year Ended June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS

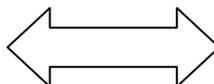
- The first two statements are School-wide financial statements that provide both short-term and long-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations 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.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
Annual Report Format



SUMMARY



DETAIL

GARY MIDDLE COLLEGE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) Year Ended June 30, 2013

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

Type of Statements	School-wide	Government Funds Statements
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	Statement of net position Statement of activities	Balance sheet Statement 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

GARY MIDDLE COLLEGE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) Year Ended June 30, 2013

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 statement of net position includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two School-wide statements report the School's net position and how it has changed. Net position, 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 position is 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.

GARY MIDDLE COLLEGE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The following is condensed from the Statements of Net Position:

	Governmental Activities	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>
ASSETS		
Current Assets	\$ 43,335	\$ 84,261
Capital Assets	451,153	4,583
Total Assets	<u>\$ 494,488</u>	<u>\$ 88,844</u>
LIABILITIES		
Current Liabilities	\$ 322,044	\$ 42,097
Noncurrent Liabilities	5,389	
Total Liabilities	<u>\$ 327,433</u>	<u>\$ 42,097</u>
NET POSITION		
Net investment in Capital Assets	\$ 434,479	\$ 4,583
Unrestricted	<u>(267,424)</u>	<u>42,164</u>
Total Net Position	<u>\$ 167,055</u>	<u>\$ 46,747</u>

The total net position at June 30 was as follows:

	<u>2013</u>	<u>2012</u>
Assets	\$ 494,488	\$ 88,844
Liabilities	<u>327,433</u>	<u>42,097</u>
Net Position	<u>\$ 167,055</u>	<u>\$ 46,747</u>

The School's total net position was \$167,055 on June 30, 2013, compared to a total net position of \$46,747 at June 30, 2012.

The primary change in the assets and liabilities from June 30, 2012 to June 30, 2013 was due to acquisition of Capital Assets and increase in payables at year end as a function of school being open and operating. Prior year was for a partial year and the School was in the process of starting up operations.

GARY MIDDLE COLLEGE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Year Ended June 30, 2013

Changes in Net Position

The following is condensed from the Statements of Activities:

	Change in Net Position	
	Years Ended June 30,	
	Governmental Activities	
	<u>2013</u>	<u>2012</u>
Revenues		
Operating Grants and Contributions	\$ 277,435	
General Revenues		
Unrestricted State Funding	1,396,292	\$112,683
Other	<u>166,183</u>	<u>2,501</u>
Total Revenues	<u>1,839,910</u>	<u>115,184</u>
Expenses		
Instruction	451,101	3,126
Support Services	957,440	62,685
Noninstructional Services	49,520	2,500
Rent	200,000	
Depreciation	48,946	126
Interest	<u>12,595</u>	
Total Expenses	<u>1,719,602</u>	<u>68,437</u>
Change in Net Position	120,308	46,747
Beginning Net Position	<u>46,747</u>	-
Ending Net Position	<u>\$ 167,055</u>	<u>\$ 46,747</u>

The change in net position for the year ended June 30 was as follows:

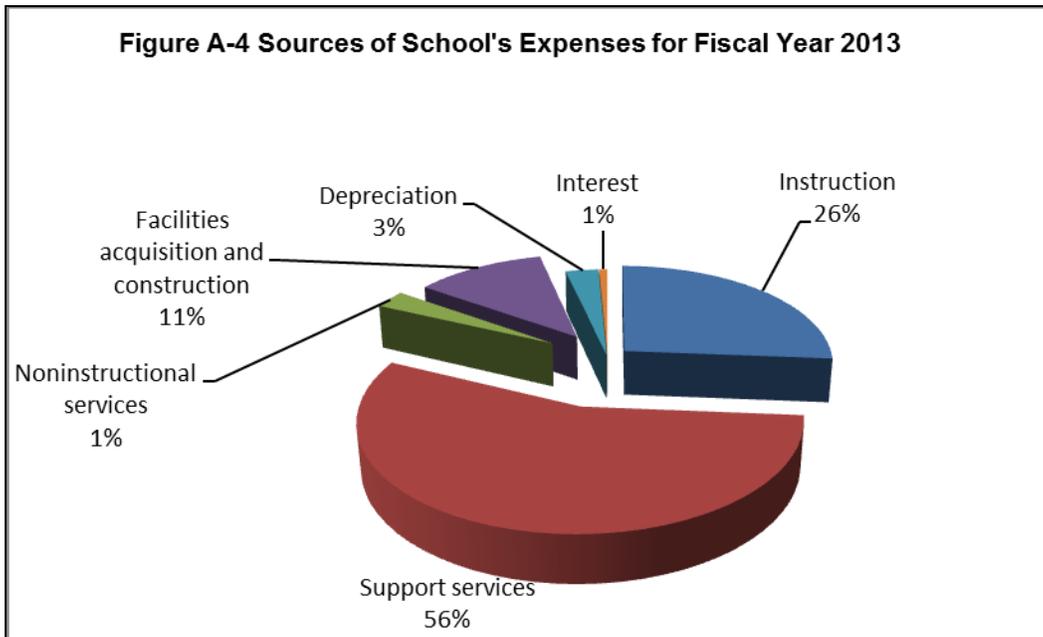
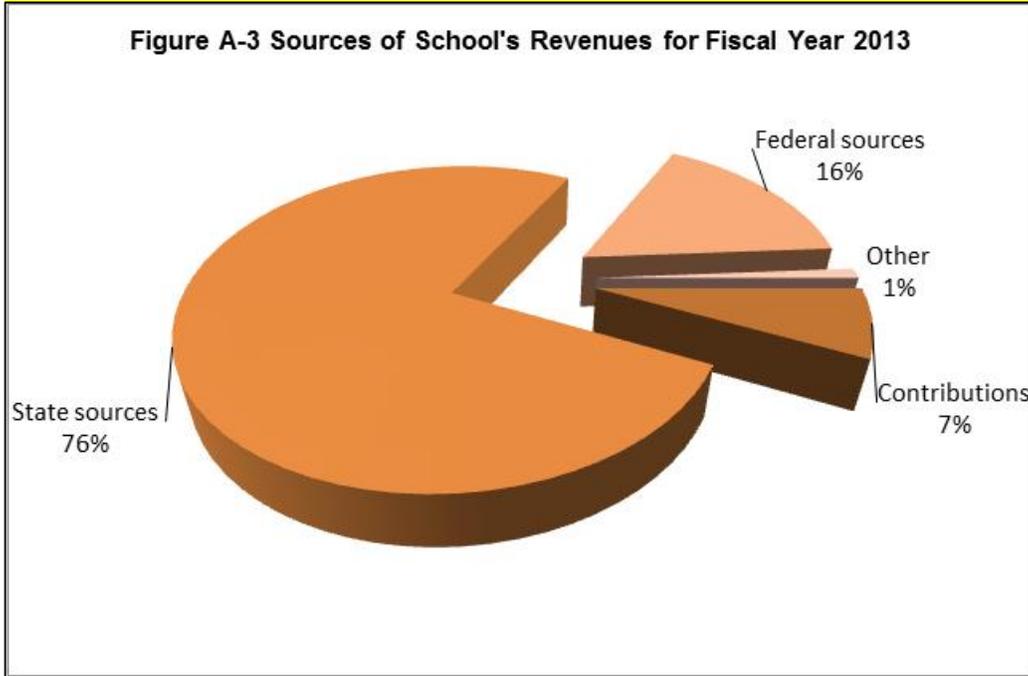
	<u>2013</u>	<u>2012</u>
Revenues	\$1,839,910	\$115,184
Expenses	<u>1,719,602</u>	<u>68,437</u>
Change in Net Assets	<u>\$ 120,308</u>	<u>\$ 46,747</u>

Change in revenues and expenses in 2013 is primarily due to 2013 being the first year of operations at the School. Prior year revenues and expenses were related to start up.

GARY MIDDLE COLLEGE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Year Ended June 30, 2013

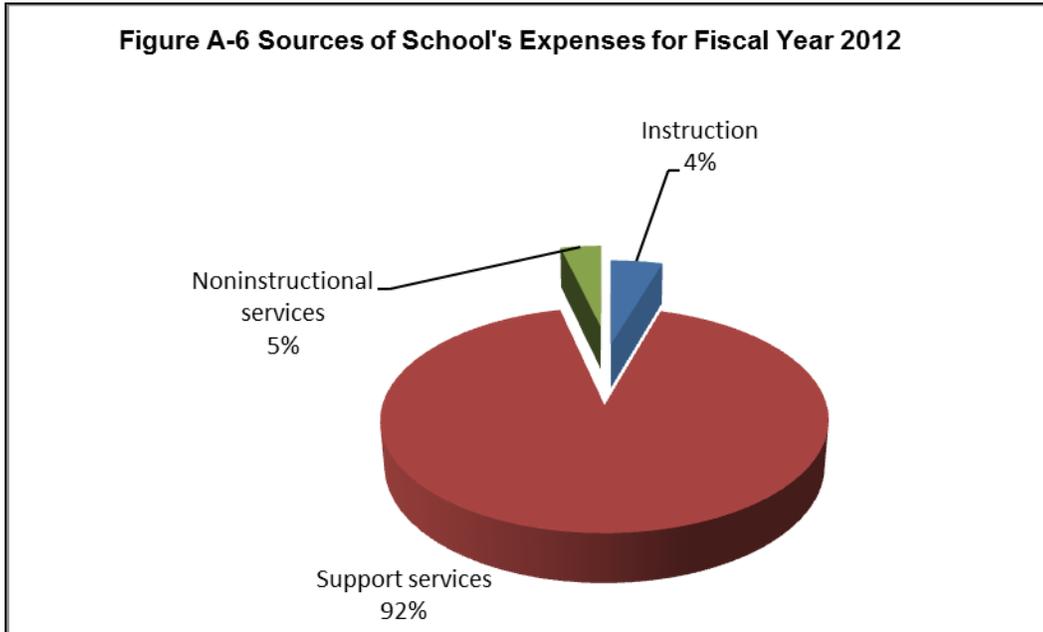
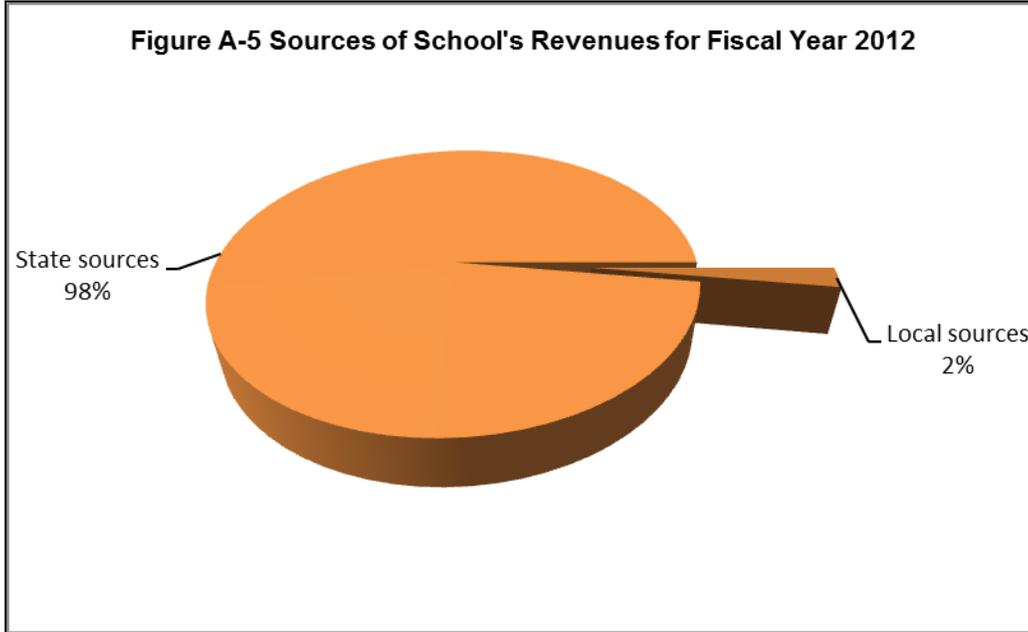
Sources of revenue and expenses are broken down below.



GARY MIDDLE COLLEGE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Year Ended June 30, 2013

Sources of revenue and expenses are broken down below.



GARY MIDDLE COLLEGE, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Year Ended June 30, 2013

CAPITAL ASSETS

By the end of fiscal year 2013, the School had invested \$500,226 in capital assets. Accumulated depreciation on these assets was \$49,073 at June 30, 2013 and \$126 at June 30, 2012.

The School's Capital Assets

	<u>2013</u>	<u>2012</u>
Capital assets	\$500,226	\$4,709
Less: Accumulated depreciation	<u>(49,073)</u>	<u>(126)</u>
Total	<u>\$451,153</u>	<u>\$4,583</u>

DEBT

Changes in long-term liabilities of governmental activities for the year ended June 30, 2013, were as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Amount Due After One Year</u>
Notes Payable	<u>\$ -</u>	<u>\$231,277</u>	<u>\$214,603</u>	<u>\$16,674</u>	<u>\$5,389</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, Gary Middle College, Inc., 556 Washington Street, Gary, Indiana 46402.

BASIC FINANCIAL STATEMENTS

GARY MIDDLE COLLEGE, INC.

**STATEMENT OF NET POSITION - PRIMARY GOVERNMENT
June 30, 2013**

ASSETS

	Governmental Activities 2013
CURRENT ASSETS	
Cash	\$ 24,941
Accounts receivable	18,394
Total Current Assets	<u>43,335</u>
NONCURRENT ASSETS	
Capital assets, net	451,153
Total Noncurrent Assets	<u>451,153</u>
TOTAL ASSETS	<u>\$ 494,488</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES	
Accounts payable and other	\$ 97,156
Accrued expenses	32,392
Accounts payable -GEOF	147,878
Accounts payable - 21st Century	33,333
Notes payable - current	11,285
Total Current Liabilities	<u>322,044</u>
NONCURRENT LIABILITIES	
Notes payable	5,389
Total Noncurrent Liabilities	<u>5,389</u>
Total Liabilities	<u>327,433</u>
NET POSITION	
Net investment in capital assets	434,479
Unrestricted	(267,424)
Total Net Position	<u>167,055</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 494,488</u>

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
STATEMENT OF ACTIVITIES - PRIMARY GOVERNMENT
Year Ended June 30, 2013

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES				
Instruction	\$ 451,101		\$ 194,090	\$ (257,011)
Support services	957,440			(957,440)
Noninstructional services	49,520			(49,520)
Rent	200,000		83,345	(116,655)
Depreciation, unallocated	48,946			(48,946)
Interest, unallocated	12,595			(12,595)
Total Governmental Activities	<u>1,719,602</u>	<u>-</u>	<u>277,435</u>	<u>(1,442,167)</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 1,719,602</u>	<u>\$ -</u>	<u>\$ 277,435</u>	<u>\$ (1,442,167)</u>
		GENERAL REVENUES		
				\$ 1,396,292
				147,567
				18,616
				<u>1,562,475</u>
		CHANGE IN NET POSITION		120,308
		NET POSITION - BEGINNING OF YEAR		<u>46,747</u>
		NET POSITION - END OF YEAR		<u>\$ 167,055</u>

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013**

ASSETS

	General	Other Governmental Funds	Totals
ASSETS			
Cash	\$ 24,941	\$ -	\$ 24,941
Accounts receivable	18,394		18,394
TOTAL ASSETS	\$ 43,335	\$ -	\$ 43,335

LIABILITIES AND FUND BALANCES

LIABILITIES			
Accounts payable and other	\$ 130,489	\$ -	\$ 130,489
Accrued expenses	180,270		180,270
Total Liabilities	310,759	-	310,759
FUND BALANCES			
Unassigned	(267,424)		(267,424)
Total Fund Balances	(267,424)	-	(267,424)
TOTAL LIABILITIES AND FUND BALANCES	\$ 43,335	\$ -	\$ 43,335

Total Fund Balances of Governmental Funds	\$(267,424)
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	451,153
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Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the funds.	(16,674)
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Net Position of Governmental Activities	\$ 167,055
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See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2013**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
REVENUES			
State sources	\$ 1,396,292		\$ 1,396,292
Federal sources	180,077	\$ 118,215	298,292
Contributions	126,710		126,710
Other	18,616		18,616
Total Revenues	<u>1,721,695</u>	<u>118,215</u>	<u>1,839,910</u>
EXPENDITURES			
Current:			
Instruction	416,231	34,870	451,101
Support services	957,440		957,440
Noninstructional services	49,520		49,520
Rent	116,655	83,345	200,000
Debt service:			
Principal	214,603		214,603
Interest	12,595		12,595
Capital outlay:			
Capital outlay	495,516		495,516
Total Expenditures	<u>2,262,560</u>	<u>118,215</u>	<u>2,380,775</u>
Excess of Expenditures over Revenues	<u>(540,865)</u>	<u>-</u>	<u>(540,865)</u>
OTHER FINANCING SOURCES			
Debt financing obtained	231,277		231,277
Total Other Financing Sources	<u>231,277</u>	<u>-</u>	<u>231,277</u>
NET CHANGE IN FUND BALANCES	(309,588)	-	(309,588)
FUND BALANCES - BEGINNING OF YEAR	42,164	-	42,164
FUND BALANCES - END OF YEAR	<u>\$ (267,424)</u>	<u>\$ -</u>	<u>\$ (267,424)</u>

Net Change in Fund Balances of Governmental Funds \$ (309,588)

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 capital outlays exceeded depreciation in the current period. 446,570

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 position. (16,674)

Change in Net Position of Governmental Activities \$ 120,308

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Gary Middle College, Inc. (the School) is a nonprofit corporation established to operate a charter school. The School is dedicated to ensure that all students armed with the skills and tools they will need to not only receive a high school diploma, but also to excel at the collegiate level.

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, 2013, and for the fiscal year 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: Gary Middle College, Inc.

School-Wide Financial Statements: The school-wide financial statements (i.e., the Statement of Net Position and Statement 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 fund:

- 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.

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.

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 those estimates.

Net Position and Fund Balances: Net position is displayed in three components:

- The Net Investment in Capital Assets component consists of property or infrastructure that the School acquired, net of the related debt.
- The Restricted Net Position component represents net position 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.
- The Unrestricted Net Position component consists of net position 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, 2013.

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:

Equipment	3-15 years
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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: The School 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, the School 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 2013.

The School files U.S. federal and state of Indiana information tax returns. The School is subject to U.S. federal and state income tax examinations by tax authorities for all fiscal years since incorporation.

Subsequent Events: The School has evaluated the financial statements for subsequent events occurring through December 27, 2013, the date the financial statements were available to be issued.

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, 2013 were as follows:

	Balance at July 1, 2012	Additions	Retirements	Balance at June 30, 2013
Depreciable capital assets:				
Equipment	\$4,709	\$495,516		\$500,225
Less: Accumulated depreciation	<u>126</u>	<u>48,946</u>	<u> </u>	<u>49,072</u>
Total Capital Assets, net	<u>\$4,583</u>	<u>\$446,570</u>	<u>\$ </u>	<u>\$451,153</u>

NOTE 5 - LONG-TERM DEBT ACTIVITY

Long-term debt of governmental activities included the following at June 30, 2013:

Note payable to GEO Foundation for the lease of computer equipment, payable in monthly payments with an imputed interest rate of 9.50%, through maturity in July 2014.	\$16,674
Less: Current maturities	<u>11,285</u>
Total Long-term Debt	<u>\$ 5,389</u>

NOTE 5 - LONG-TERM DEBT ACTIVITY (CONTINUED)

At June 30, 2013, the debt service requirements of the note payable for governmental activities was as follows:

<u>Year Ending</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
June 30, 2013	\$11,285	\$1,072	\$12,357
June 30, 2014	<u>5,389</u>	<u>511</u>	<u>5,900</u>
	<u>\$16,674</u>	<u>\$1,583</u>	<u>\$18,257</u>

Total interest paid during the year ended June 30, 2013 was \$12,595.

Changes in long-term liabilities of governmental activities for the year ended June 30, 2013, were as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Amount Due After One Year</u>
Notes payable	\$ <u>-</u>	<u>\$231,277</u>	<u>\$214,603</u>	<u>\$16,674</u>	<u>\$5,389</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 year ended June 30, 2013, the School paid GEOF fees of \$227,535. 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. At June 30, 2013, the School had a payable to GEOF of \$147,848 for management fees.

The School leases space from 21st Century Charter Schools @ Gary, Inc. (21st Century). This lease expired in September 2013 and is being paid on a month to month basis with payment in the amount of \$16,666 per month until renewed. Rent expense totaled \$200,000 for the year ended June 30, 2013. At June 30, 2013, the School had a payable to 21st Century Charter Schools @ Gary, Inc. in the amount of \$33,000.

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 \$20,949 in the year ended June 30, 2013.

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 matching contributions to the Plan in the year ended June 30, 2013.

NOTE 7 - PENSION PLANS (CONTINUED)

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.

In addition, the participants are required to contribute to an annuity savings account. Legislation permits an INPRS employer to make the participant's contributions on behalf of the participants. Participants 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. The participant's balance in the annuity savings account may be withdrawn at any time with interest should a participant terminate employment.

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.

Funding Policy

The School is required by State statute to contribute at an actuarially determined rate. The current rate is 9.7% of annual covered payroll. The School contributed the participant's required contribution of 3% of their annual salary to an annuity savings account. The contribution requirements of participants are determined by State statute.

Annual Pension Cost

For the 2013 plan year, the School's annual contribution was \$17,640. 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. As this was the first year, there was no required contributions as determination is based on the prior year 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 6.75% 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.

REQUIRED SUPPLEMENTARY INFORMATION

GARY MIDDLE COLLEGE, INC.

**SCHEDULE OF ACTUAL OPERATING REVENUES AND EXPENSES
COMPARED TO BUDGET – MODIFIED CASH BASIS (UNAUDITED)
Year Ended June 30, 2013**

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 Budget Total</u>	<u>Actual Total</u>	<u>Difference</u>
Revenue			
State funding	\$1,458,800	\$1,396,292	\$ (62,508)
Federal sources	246,000	298,292	52,292
Contributions		126,710	126,710
Other funding		18,616	18,616
Total Revenues	<u>1,704,800</u>	<u>1,839,910</u>	<u>135,110</u>
Expenses			
Salaries, wages and benefits	820,986	869,016	48,030
Professional services	357,000	357,316	316
Occupancy and building maintenance		82,929	82,929
Rent	285,000	200,000	(85,000)
Bus and transportation		6,391	6,391
Office, organizational and other	201,432	112,036	(89,396)
Other expenses	25,000	30,373	5,373
Extracurricular	1,000		(1,000)
Total Expenses	<u>1,690,418</u>	<u>1,658,061</u>	<u>(32,357)</u>
Net Revenues Over Expenses	<u>\$ 14,382</u>	<u>\$ 181,849</u>	<u>\$167,467</u>

The modified cash basis, as presented above, does not include depreciation expense of \$48,946 and interest expense of \$12,595 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
Gary Middle College, Inc.

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gary Middle College, Inc. (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 27, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a certain deficiency in internal control 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 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 responses as Item 2013-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The School's Response to Findings

The School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Katz, Sapp & Miller, LLP

Indianapolis, Indiana
December 27, 2013

GARY MIDDLE COLLEGE, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2013

Financial Statement Findings

2013-01: Material Weakness in Internal Control over Financial Reporting

Criteria: Misstatement of the School's financial statements should be detected and prevented by Gary Middle College, Inc.'s internal control over financial reporting in a timely manner.

Condition and Context: There were material misstatements noted in certain account balances reported at June 30, 2013.

Cause and Effect: Internal controls were not effective in finding and correcting the material misstatement at June 30, 2013.

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.

GARY MIDDLE COLLEGE, 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 Gary Middle College, Inc.