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January 23, 2014

Charter School Board
21st 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, 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 21st Century Charter School @ Gary, 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 40 contains one current audit finding. Page 41 contains the status of two prior audit findings. Management's response is on page 40.

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

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

State Board of Accounts

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
WITH SUPPLEMENTARY AND OTHER INFORMATION

June 30, 2013 and 2012

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

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Independent Auditors' Report

Board of Directors
21st Century Charter School @ Gary, 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 21st Century Charter School @ Gary, Inc. (collectively, the School) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the 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 audits. We conducted our audits 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 21st Century Charter School @ Gary, Inc. as of June 30, 2013 and 2012, and the respective changes in financial position for the years 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 4 through 14, the retirement plan schedule of funding progress and employer contributions on page 31 and the schedule of actual operating revenues and expenses compared to budget – modified cash basis on page 32 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 Information

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 schedule of expenditures of federal awards on pages 35 and 36, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards 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. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2014, 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, Sapper & Miller, LLP

Indianapolis, Indiana
February 11, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) Years Ended June 30, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012. 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 \$6,119,910 as compared to total expenses of \$6,588,735.
- The total net position decreased by \$468,825 from the prior year's ending balance.

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 net position increased by \$72,008 from the prior year's ending balance.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

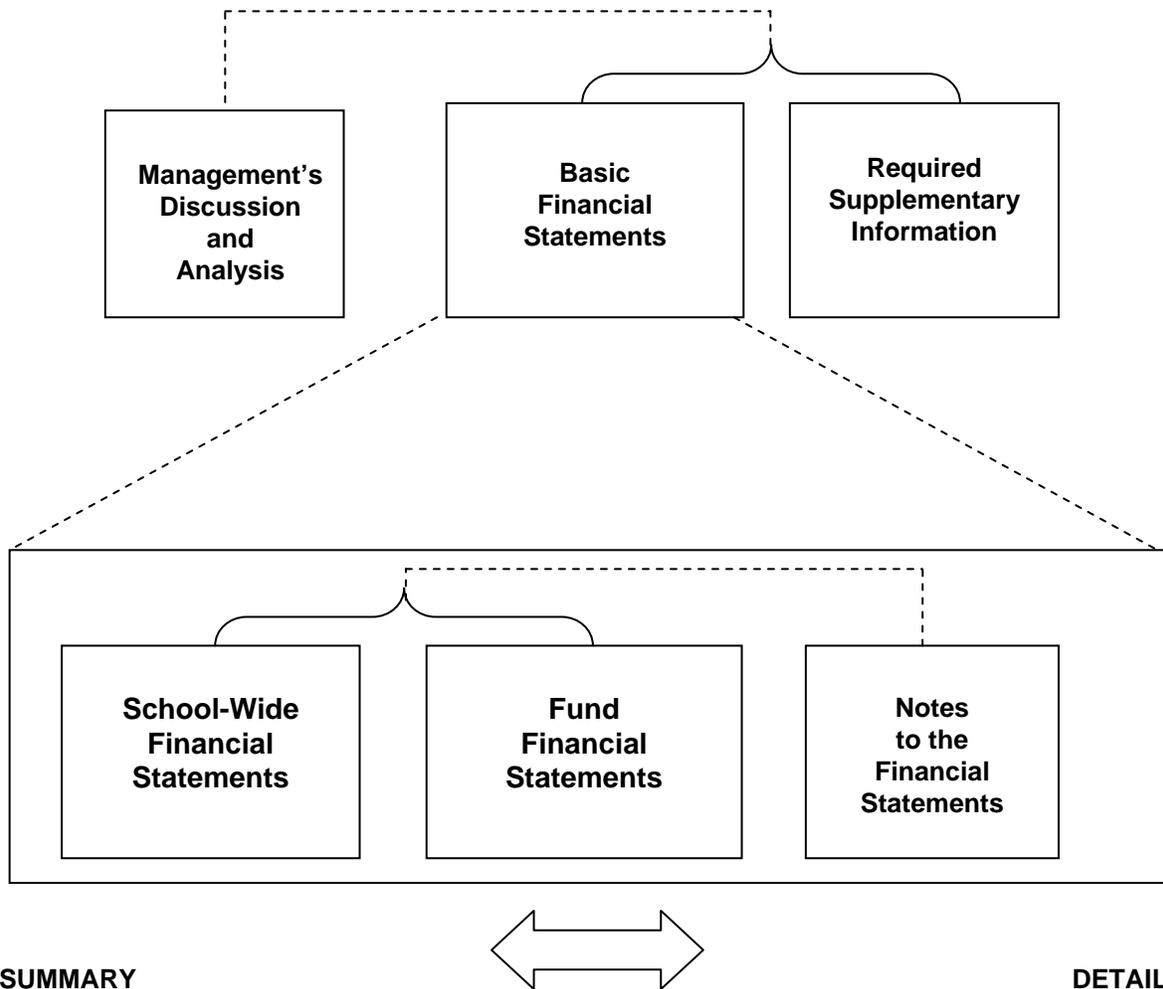
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Years Ended June 30, 2013 and 2012

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



21ST CENTURY CHARTER SCHOOL @ GARY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED) Years Ended June 30, 2013 and 2012

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	Governmental 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	Statements of net position Statements of activities	Balance sheets 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 (UNAUDITED) (CONTINUED) Years Ended June 30, 2013 and 2012

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 position 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 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.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Years Ended June 30, 2013 and 2012

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>	<u>June 30, 2011</u>
ASSETS			
Current Assets	\$ 7,353,315	\$1,832,129	\$1,632,079
Capital Assets	5,463,648	530,896	615,199
Noncurrent Assets	<u>1,014,187</u>	<u> </u>	<u> </u>
Total Assets	<u>\$13,831,150</u>	<u>\$2,363,025</u>	<u>\$2,247,278</u>
LIABILITIES			
Current Liabilities	\$ 676,540	\$ 425,044	\$ 452,488
Noncurrent Liabilities	<u>13,507,986</u>	<u>1,822,532</u>	<u>1,751,349</u>
Total Liabilities	<u>\$14,184,526</u>	<u>\$2,247,576</u>	<u>\$2,203,837</u>
NET POSITION			
Net investment in Capital Assets	\$ 549,003	\$ 517,339	\$ 615,199
Unrestricted	<u>(902,379)</u>	<u>(401,890)</u>	<u>(571,758)</u>
Total Net Position	<u>\$ (353,376)</u>	<u>\$ 115,449</u>	<u>\$ 43,441</u>

The total net position at June 30 was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets	\$13,831,150	\$2,363,025	\$2,247,278
Liabilities	<u>14,184,526</u>	<u>2,247,576</u>	<u>2,203,837</u>
Net Position	<u>\$ (353,376)</u>	<u>\$ 115,449</u>	<u>\$ 43,441</u>

The School's total net position was \$(353,376) on June 30, 2013, compared to total net position of \$115,449 at June 30, 2012, and \$43,441 at June 30, 2011.

The primary change in the assets and liabilities from June 30, 2012 to June 30, 2013 related to a bond issuance in the amount of \$13,500,000 for the acquisition of an approximately 32,500 square foot building and the construction and equipping of a new, approximately 50,000 square foot building. The School implemented *Government Accounting Standards Board Statement No. 65 (GASB No. 65), Items Previously Reported as assets and liabilities*. GASB No. 65 requires the School to expense bond issuance costs when incurred. Previously, bond issuance costs would have been amortized over the length of the bond. Bond issuance costs totaled \$816,194 during the June 30, 2013 year-end.

The State of Indiana also changed its' funding to the School from a calendar year to a fiscal year so the School is no longer paid in arrears. In conjunction with this change, the outstanding Common School Fund loans were forgiven. This resulted in a decrease in accounts receivable from the State and the write-off of the Common School Fund loans as of June 30, 2013.

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.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Years Ended June 30, 2013 and 2012

Change 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>	<u>2011</u>
Revenues			
Program Revenues			
Charges for Services	\$ 705	\$ 4,388	\$ 5,882
Operating Grants and Contributions	340,200	283,612	301,958
General Revenues			
Forgiveness of debt – Common School Fund	2,154,960		
Unrestricted State Funding	1,759,790	3,036,150	2,890,544
Grants and contributions not restricted to Specific programs	1,608,967	748,432	597,042
Rent income	200,000		
Other	<u>55,288</u>	<u>18,513</u>	<u>37,269</u>
Total Revenues	<u>6,119,910</u>	<u>4,091,095</u>	<u>3,832,695</u>
Expenses			
Instruction	2,063,730	1,492,584	1,347,880
Support Services	2,558,704	1,886,769	1,904,077
Noninstructional Services	16,457	22,847	194,101
Facilities	553,502	360,000	360,000
Depreciation	247,467	192,460	197,406
Interest	332,681	64,427	63,685
Bond issuance costs	<u>816,194</u>		
Total Expenses	<u>6,588,735</u>	<u>4,019,087</u>	<u>4,067,149</u>
Change in Net Position	(468,825)	72,008	(234,454)
Beginning Net Position	<u>115,449</u>	<u>43,441</u>	<u>277,895</u>
Ending Net Position	<u>\$ (353,376)</u>	<u>\$ 115,449</u>	<u>\$ 43,441</u>

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Years Ended June 30, 2013 and 2012

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

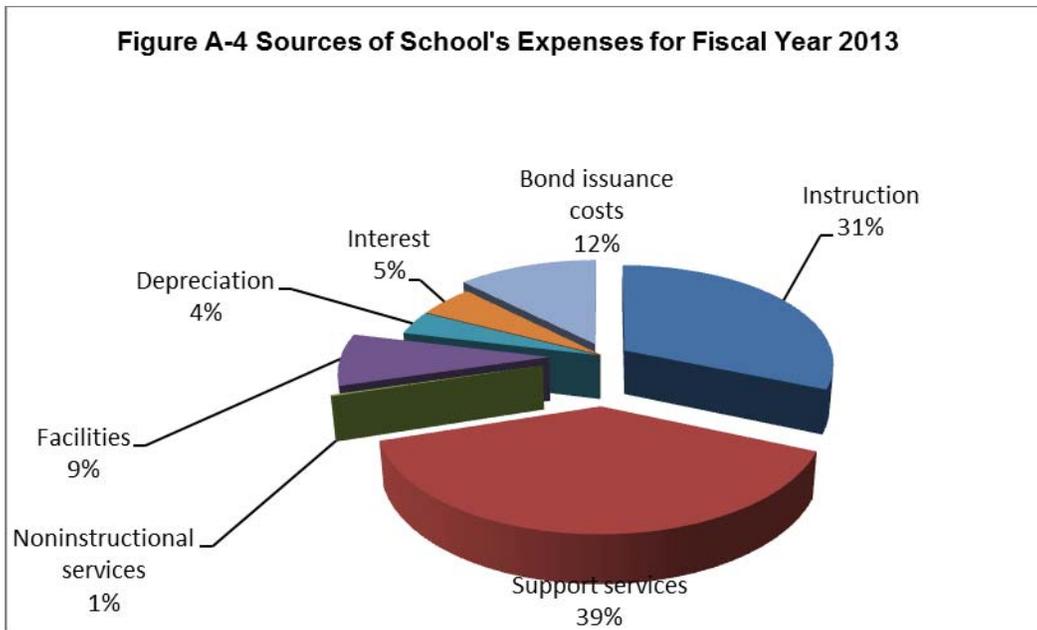
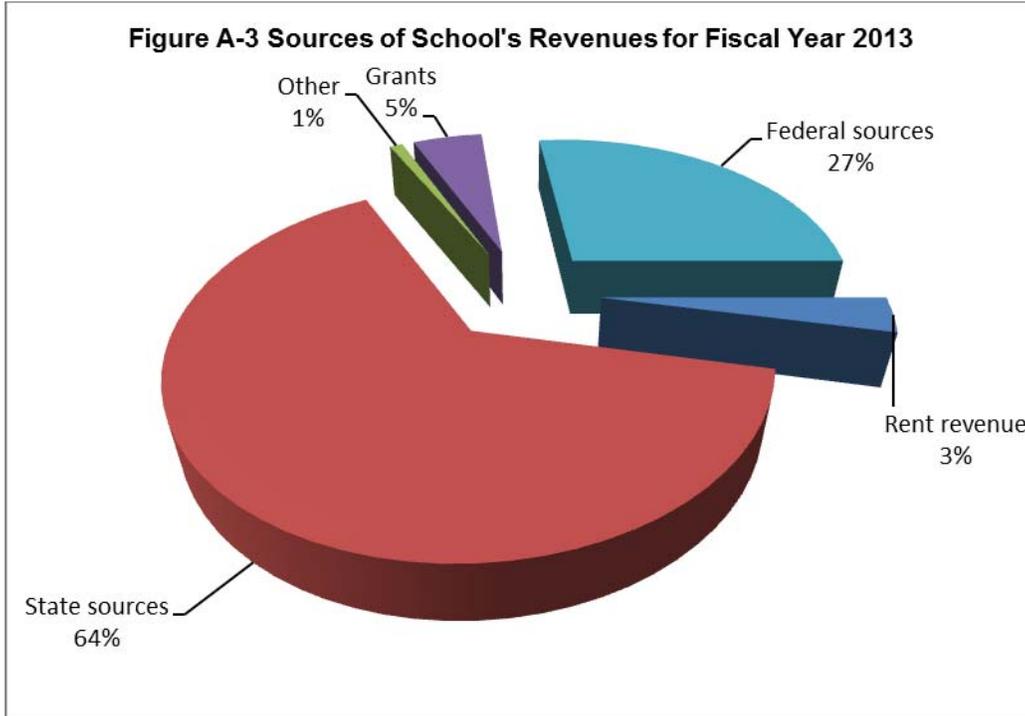
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues	\$6,119,910	\$4,091,095	\$3,832,695
Expenses	<u>6,588,735</u>	<u>4,019,087</u>	<u>4,067,149</u>
Change in Net Position	<u>\$ (468,825)</u>	<u>\$ 72,008</u>	<u>\$ (234,454)</u>

In 2013, unrestricted State funding decreased as a result of the change in funding from a calendar year to a fiscal year. However, this revenue decrease was offset by an increase due to debt forgiveness of the Common School Fund loans. Grant revenue and correlating expenses increased due to an additional grant received. Additional interest expense and issuance costs were incurred related to the bond issuance. The change in 2012 is due to an increase in student enrollment.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Years Ended June 30, 2013 and 2012

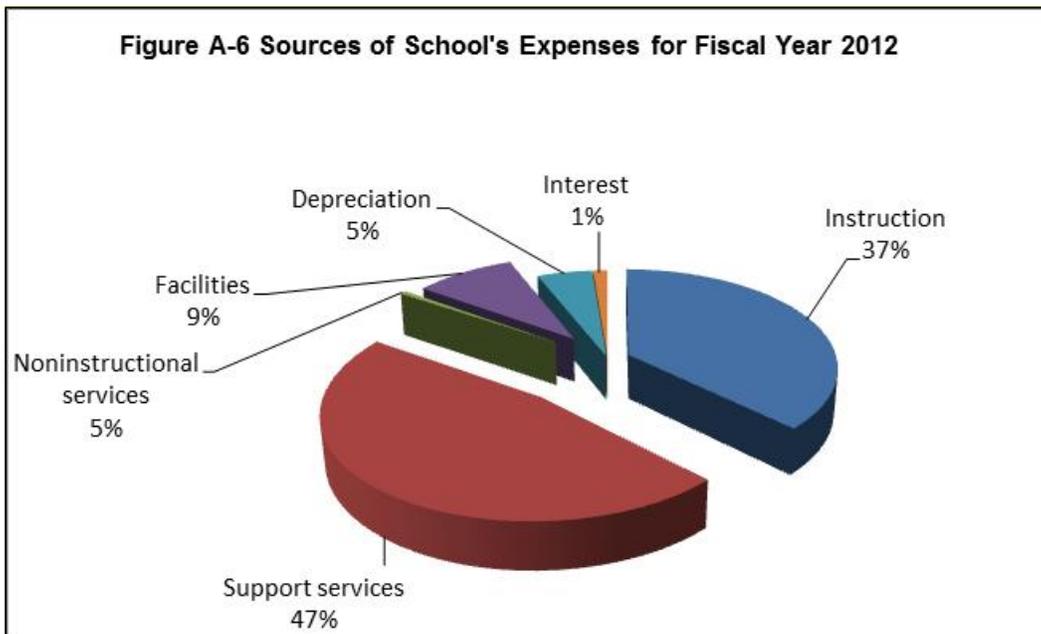
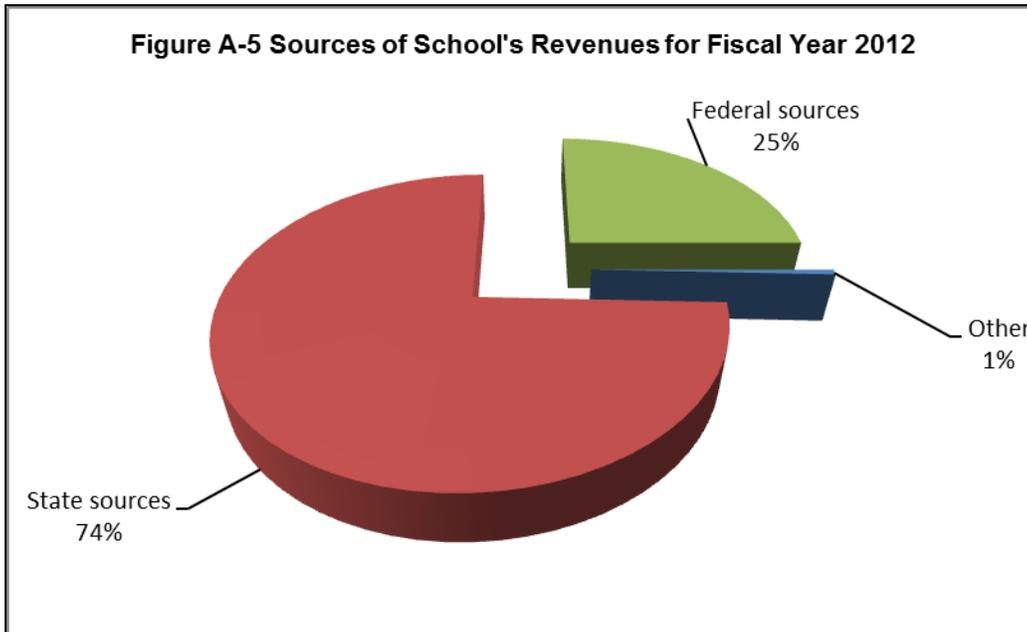
Sources of revenue and expenses are broken down below.



21ST CENTURY CHARTER SCHOOL @ GARY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Years Ended June 30, 2013 and 2012

Sources of revenue and expenses are broken down below.



21ST CENTURY CHARTER SCHOOL @ GARY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Years Ended June 30, 2013 and 2012

CAPITAL ASSETS

During fiscal year ended June 30, 2013, the school purchased the building in which the school was located for approximately \$3,500,000. This building had previously been leased. Construction in progress of approximately \$1,300,000 was incurred related to the construction of a new building being constructed for the purpose of leasing to Gary Middle College. These acquisitions were funded with debt incurred from the bond issuance in the amount of \$13,500,000.

The School's Capital Assets

Capital assets held were are follows for years ended June 30,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital assets	\$ 6,727,839	\$ 1,559,643	\$1,451,486
Less: Accumulated depreciation	<u>(1,264,191)</u>	<u>(1,028,747)</u>	<u>(836,287)</u>
Total	<u>\$ 5,463,648</u>	<u>\$ 530,896</u>	<u>\$ 615,199</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>
Accrued Interest	\$ 222,899	\$ 49,846	\$ 272,745		
Notes Payable	1,605,692	457,678	1,962,514	\$ 100,856	\$ 7,986
Bonds Payable		<u>13,500,000</u>		<u>13,500,000</u>	<u>13,500,000</u>
	<u>\$1,828,591</u>	<u>\$14,007,524</u>	<u>\$2,235,259</u>	<u>\$13,600,856</u>	<u>\$13,507,986</u>

Changes in long-term liabilities of governmental activities for the year ended June 30, 2012, 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>
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>

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
Years Ended June 30, 2013 and 2012

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, 21st Century Charter School @ Gary, Inc., 556 Washington Street, Gary, Indiana 46402.

BASIC FINANCIAL STATEMENTS

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
STATEMENTS OF NET POSITION - PRIMARY GOVERNMENT
June 30, 2013 and 2012

ASSETS

	Governmental Activities	
	2013	2012
CURRENT ASSETS		
Cash	\$ 253,822	\$ 209,663
Restricted cash	6,821,756	
Accounts receivable	<u>277,737</u>	<u>1,622,466</u>
Total Current Assets	<u>7,353,315</u>	<u>1,832,129</u>
NONCURRENT ASSETS		
Restricted cash	1,014,187	
Capital assets, net	<u>5,463,648</u>	<u>530,896</u>
Total Noncurrent Assets	<u>6,477,835</u>	<u>530,896</u>
TOTAL ASSETS	<u>\$13,831,150</u>	<u>\$ 2,363,025</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable and other	\$ 20,478	\$ 224,452
Accrued expenses	278,041	194,533
Accrued interest	285,151	
Notes payable - current	<u>92,870</u>	<u>6,059</u>
Total Current Liabilities	<u>676,540</u>	<u>425,044</u>
NONCURRENT LIABILITIES		
Accrued interest		222,899
Notes payable	7,986	1,599,633
Bonds payable	<u>13,500,000</u>	
Total Noncurrent Liabilities	<u>13,507,986</u>	<u>1,822,532</u>
Total Liabilities	<u>14,184,526</u>	<u>2,247,576</u>
NET POSITION		
Net investment in capital assets	549,003	517,339
Unrestricted	<u>(902,379)</u>	<u>(401,890)</u>
Total Net Position	<u>(353,376)</u>	<u>115,449</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$13,831,150</u>	<u>\$ 2,363,025</u>

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
STATEMENT OF ACTIVITIES - PRIMARY GOVERNMENT
Year Ended June 30, 2012

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	\$ 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	360,000		228,992	(131,008)
Depreciation, unallocated	192,460			(192,460)
Interest, unallocated	64,427			(64,427)
Total Governmental Activities	4,019,087	4,388	283,612	(3,731,087)
TOTAL PRIMARY GOVERNMENT	\$ 4,019,087	\$ 4,388	\$ 283,612	\$ (3,731,087)
GENERAL REVENUES				
State aid				\$ 3,036,150
Grants and contributions not restricted to specific programs				748,432
Other				18,513
Total General Revenues				3,803,095
CHANGE IN NET POSITION				72,008
NET POSITION - BEGINNING OF YEAR				43,441
NET POSITION - END OF YEAR				\$ 115,449

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

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

ASSETS

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
ASSETS			
Cash	\$ 253,822	\$ -	\$ 253,822
Accounts receivable	277,737		277,737
Restricted cash	7,835,943		7,835,943
TOTAL ASSETS	<u>\$ 8,367,502</u>	<u>\$ -</u>	<u>\$ 8,367,502</u>

LIABILITIES AND FUND BALANCES

LIABILITIES			
Accounts payable and other	\$ 20,478	\$ -	\$ 20,478
Accrued expenses	278,041		278,041
Total Liabilities	<u>298,519</u>	<u>-</u>	<u>298,519</u>
FUND BALANCES			
Restricted for: Capital Expenditures	6,821,756	\$ -	6,821,756
Restricted for: Debt Service	1,014,187		1,014,187
Unassigned	233,040		233,040
Total Fund Balances	<u>8,068,983</u>	<u>-</u>	<u>8,068,983</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,367,502</u>	<u>\$ -</u>	<u>\$ 8,367,502</u>

Total Fund Balances of Governmental Funds

\$ 8,068,983

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.

5,463,648

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

(13,886,007)

Net Position of Governmental Activities

\$ (353,376)

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

LIABILITIES AND FUND BALANCES

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

Total Fund Balances of Governmental Funds

\$ 1,407,085

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.

530,896

Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the funds.

(1,822,532)

Net Position of Governmental Activities

\$ 115,449

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, 2013**

	<u>General</u>	<u>Title I</u>	<u>Charter Facilities Grant</u>	<u>SIG ARRA Grant</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
REVENUES						
State sources	\$ 1,727,346				\$ 41,444	\$ 1,768,790
Federal sources	2,933	\$ 449,239	\$ 204,000	\$ 810,975	168,687	1,635,834
Grants and contributions not restricted to specific programs	304,333					304,333
Rent revenue	200,000					200,000
Other	55,288				705	55,993
Total Revenues	<u>2,289,900</u>	<u>449,239</u>	<u>204,000</u>	<u>810,975</u>	<u>210,836</u>	<u>3,964,950</u>
EXPENDITURES						
Current:						
Instruction	1,174,475	395,946		392,964	100,345	2,063,730
Support services	2,110,661	50,703		286,849	110,491	2,558,704
Noninstructional services	13,867	2,590				16,457
Facilities	349,502		204,000			553,502
Debt service:						
Principal	66,572					66,572
Interest	47,530					47,530
Bond issuance costs	816,194					816,194
Capital outlay:						
Capital outlay	5,056,725			131,162		5,187,887
Total Expenditures	<u>9,635,526</u>	<u>449,239</u>	<u>204,000</u>	<u>810,975</u>	<u>210,836</u>	<u>11,310,576</u>
Excess of Expenditures over Revenues	<u>(7,345,626)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,345,626)</u>
OTHER FINANCING SOURCES						
Debt financing obtained	14,007,524					14,007,524
Total Other Financing Sources	<u>14,007,524</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,007,524</u>
NET CHANGE IN FUND BALANCES	6,661,898	-	-	-	-	6,661,898
FUND BALANCES - BEGINNING OF YEAR	<u>1,407,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,407,085</u>
FUND BALANCES - END OF YEAR	<u>\$ 8,068,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,068,983</u>

Net Change in Fund Balances of Governmental Funds

\$ 6,661,898

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

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. This is the amount of revenue recognized in current period for the forgiveness of debt.

2,154,960

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.

4,940,420

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.

(13,940,952)

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

(285,151)

Change in Net Position of Governmental Activities

\$ (468,825)

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</u>	<u>Charter Facilities Grant</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
REVENUES					
State sources	\$ 3,013,000			\$ 35,810	\$ 3,048,810
Federal sources	89,814	\$ 450,732	\$ 228,992	249,846	1,019,384
Other	18,513			4,388	22,901
Total Revenues	<u>3,121,327</u>	<u>450,732</u>	<u>228,992</u>	<u>290,044</u>	<u>4,091,095</u>
EXPENDITURES					
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	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
Total Expenditures	<u>2,912,188</u>	<u>450,732</u>	<u>228,992</u>	<u>290,044</u>	<u>3,881,956</u>
Excess of Revenues over Expenditures	<u>209,139</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>209,139</u>
OTHER FINANCING SOURCES					
Debt financing obtained	18,355				18,355
Total Other Financing Sources	<u>18,355</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,355</u>
NET CHANGE IN FUND BALANCES	227,494	-	-	-	227,494
FUND BALANCES - BEGINNING OF YEAR	<u>1,179,591</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,179,591</u>
FUND BALANCES - END OF YEAR	<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 Position of Governmental Activities \$ 72,008

See accompanying notes to financial statements.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

NOTES TO FINANCIAL STATEMENTS June 30, 2013 and 2012

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, 2013 and 2012, 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 Position 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 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.
- ARRA – School Improvement Grants, Recovery Act (SIG) Grant for federal awards received for school improvements.

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.

The School elected to early adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The application of GASB Statement No. 65 required that the bond issuance costs be expensed as incurred and not deferred.

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 a 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 a net position that does 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.

Restricted Cash includes funds held in trust accounts for capital expenditures and debt service reserves.

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 and 2012.

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 and 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: 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 years 2013 or 2012.

The School files U.S. federal and state of Indiana information tax returns. The School is no longer subject to U.S. federal and state income tax examinations by tax authorities for fiscal years before 2010.

Subsequent Events: The School has evaluated the financial statements for subsequent events occurring through February 11, 2014, 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
Capital assets not being depreciated:				
Land		\$ 296,500		\$ 296,500
Construction in progress		<u>1,313,789</u>		<u>1,313,789</u>
		<u>1,610,289</u>		<u>1,610,289</u>
Depreciable capital assets:				
Building		3,203,500		3,203,500
Building improvements	\$ 93,857	16,008		109,865
Equipment	<u>1,465,786</u>	<u>358,090</u>	\$ 19,691	<u>1,804,185</u>
Total depreciable capital assets	1,559,643	3,577,598	19,691	5,117,550
Less: Accumulated depreciation	<u>1,028,747</u>	<u>247,467</u>	<u>12,023</u>	<u>1,264,191</u>
Net depreciable capital assets	<u>530,896</u>	<u>3,330,131</u>	<u>7,668</u>	<u>3,853,359</u>
Total Capital Assets, net	<u>\$ 530,896</u>	<u>\$4,940,420</u>	<u>\$ 7,668</u>	<u>\$5,463,648</u>

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

	Balance at July 1, 2011	Additions	Retirements	Balance at 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>

NOTE 5 - LONG-TERM DEBT ACTIVITY

Long-term debt of governmental activities included the following at June 30, 2013 and 2012:

	2013	2012
Indiana Common School Fund loan payable in semi-annual installments, including interest computed at 4%. Forgiven in 2013.		\$1,010,581
Indiana Common School Fund loan payable in semi-annual installments, including interest computed at 4%. Forgiven in 2013.		250,798
Indiana Common School Fund loan payable in semi-annual installments, including interest computed at 4%. Forgiven in 2013.		330,756
Series 2013A bonds payable, maturing in March 2033, including interest computed at a rate of 6%, secured by Real Estate Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture filing, and Trust Accounts and interest in the Project, as defined in the Loan Agreement dated February 1, 2013.	\$ 5,525,000	
Series 2013A bonds payable, maturing in March 2043, including interest computed at a rate of 6.25%, secured by Real Estate Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture filing, and Trust Accounts and interest in the Project, as defined in the Loan Agreement dated February 1, 2013.	7,355,000	
Series 2013B bonds payable, maturing in March 2018, including interest computed at a rate of 7%, secured by Real Estate Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture filing, and Trust Accounts and interest in the Project, as defined in the Loan Agreement dated February 1, 2013.	620,000	
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.	93,358	

NOTE 5 - LONG-TERM DEBT ACTIVITY (CONTINUED)

	2013	2012
Loan payable in monthly installments, including interest computed at 5.45%, through maturity in August 2014. Secured by equipment.	<u>\$ 7,498</u>	<u>\$ 13,557</u>
	13,600,856	1,605,692
Less: Current maturities	<u>92,870</u>	<u>6,059</u>
Total Long-term Debt	<u>\$13,507,986</u>	<u>\$1,599,633</u>

In 2013, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for and received repayment of its indebtedness as of June 30, 2013. The gain due to this loan forgiveness has been reflected in the accompanying statement of activities.

At June 30, 2013, the debt service requirements of bonds and loans payable for governmental activities were as follows:

<u>Year Ending</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
June 30, 2014	\$ 92,870	\$ 834,588	\$ 927,458
June 30, 2015	182,986	830,504	1,013,490
June 30, 2016	190,000	817,904	1,007,904
June 30, 2017	205,000	804,254	1,009,254
June 30, 2018	215,000	790,221	1,005,221
June 30, 2019 – June 30, 2023	1,300,000	3,733,437	5,033,437
June 30, 2024 – June 30, 2028	1,735,000	3,285,537	5,020,537
June 30, 2029 – June 30, 2033	2,325,000	2,686,337	5,011,337
June 30, 2034 – June 30, 2038	3,125,000	1,866,771	4,991,771
June 30, 2039 – June 30, 2043	<u>4,230,000</u>	<u>736,875</u>	<u>4,966,875</u>
	<u>\$13,600,856</u>	<u>\$16,386,428</u>	<u>\$29,987,284</u>

Total interest paid during the years ended June 30, 2013 and 2012 was \$47,530 and \$742, respectively.

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>
Accrued interest	\$ 222,899	\$ 49,846	\$ 272,745		
Notes payable	1,605,692	457,678	1,962,514	\$ 100,856	\$ 7,986
Bonds payable	<u> </u>	<u>13,500,000</u>	<u> </u>	<u>13,500,000</u>	<u>13,500,000</u>
	<u>\$1,828,591</u>	<u>\$14,007,524</u>	<u>\$2,235,259</u>	<u>\$13,600,856</u>	<u>\$13,507,986</u>

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 Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Amount Due After 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>

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, 2013 and 2012, the School paid GEOF fees of \$350,000 and \$553,122, 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 \$81,421 and \$74,973 at June 30, 2013 and 2012, respectively, which will be applied against future expenses.

The School leased space from Greater Education Opportunities Foundation Holdings Indiana, LLC (GEOFHIN) under a long-term operating lease. Rent expense totaled \$270,975 for the year ended June 30, 2013, of which \$240,000 was to GEOFHIN. Rent expense totaled \$395,139 for the year ended June 30, 2012, of which \$360,000 was to GEOFHIN. The building was purchased from GEOFHIN during 2013.

The School leases space to Gary Middle College, Inc. This lease expired in September 2013 and is being paid on a month to month basis in the amount of \$16,666 per month until renewed. Rent income totaled \$200,000 for the year ended June 30, 2013. At June 30, 2013, the School had a receivable from Gary Middle College, Inc. in the amount of \$33,000 for June rent.

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 \$94,438 and \$84,184 in the years ended June 30, 2013 and 2012, 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 matching contributions to the Plan in the years ended June 30, 2013 and 2012.

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% (8.6% in prior year) 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.

NOTE 7 - PENSION PLANS (CONTINUED)

Annual Pension Cost

For the 2013 plan year, the School's annual contribution of \$65,943 was greater than the required contribution. Contribution to the plan was \$42,268 for fiscal year 2012. 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, 2012 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 and 7.0% in 2013 and 2012, respectively 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

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

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

Year Ended June 30, 2013

Asset Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(2-1) (Unfunded) Overfunded AAL (UAAL)	(1/2) Funded Ratio	(3) Covered Payroll	[(2-1)/3] UAAL as a Percentage of Covered Payroll	Annual Pension Cost (APC)	Percentage of APC Contributed
June 30, 2012	\$ 205,690	\$ 185,950	\$19,740	100%	\$ 610,184	0%	\$ 33,829	124%
June 30, 2011	155,789	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%

21ST CENTURY CHARTER SCHOOL @ GARY, 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	\$3,871,074	\$3,923,750	\$ 52,676
Federal sources	1,890,508	1,635,834	(254,674)
Grants and contributions		304,333	304,333
Rent	200,000	200,000	
Other funding		55,993	55,993
Total Revenues	<u>5,961,582</u>	<u>6,119,910</u>	<u>158,328</u>
Expenses			
Salaries, wages and benefits	1,807,556	1,951,887	144,331
Professional services	1,206,727	717,589	(489,138)
Title 1	1,775,164	1,120,485	(654,679)
Occupancy and building maintenance	165,000	90,752	(74,248)
Rent	396,000	291,122	(104,878)
Bus and transportation	20,000	49,110	29,110
Office, organizational and other	78,000	115,281	37,281
Extracurricular	40,000	13,867	(26,133)
Other Expenses	120,000	162,625	42,625
Bond Issuance costs		816,194	816,194
Capital Expenditures	130,000	679,675	549,675
Total Expenses	<u>5,738,447</u>	<u>6,008,587</u>	<u>270,140</u>
Net Revenues Over Expenses	<u>\$ 223,135</u>	<u>\$ 111,323</u>	<u>\$(111,812)</u>

The modified cash basis, as presented above, does not include depreciation expense of \$247,467 and interest expense of \$332,681 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, 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 21st Century Charter School @ Gary, 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 February 11, 2014.

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 in the accompanying schedule of findings and questioned costs, 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 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 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 no 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 questioned costs. 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katy, Sapper & Miller, LLP

Indianapolis, Indiana
February 11, 2014

21ST CENTURY CHARTER SCHOOL @ GARY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through the Indiana Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	FY 2011-2012	\$ 33,042
Title I Grants to Local Educational Agencies	84.010	FY 2012-2013	416,197
Total for Title I Grants to Local Educational Agencies			<u>449,239</u>
Special Education Cluster			
Special Education - Grants to States	84.027	FY 2012-2013	72,473
Improving Teacher Quality State Grants	84.367	FY 2012-2013	94,346
Education Jobs Fund	84.410	FY 2012-2013	1,868
Charter Schools	84.282	FY 2012-2013	204,000
School Improvement Grants Cluster			
ARRA - School Improvement Grants, Recovery Act*	84.388	FY 2012-2013	810,975
Total for U.S. Department of Education			<u>1,632,901</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,632,901</u></u>

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

See accompanying notes to schedule of expenditures of federal awards.

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of 21st Century Charter School @ Gary, Inc. (the School) and other programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operational expenses of the School, it is not intended to and does not present the net position or changes in net position of the School.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

*Independent Auditors' Report on Compliance for
Each Major Federal Program and Report on
Internal Control over Compliance
Required by OMB Circular A-133*

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

Report on Compliance for Each Major Federal Program

We have audited 21st Century Charter School @ Gary, Inc.'s (the School) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2013. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 the School's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
February 11, 2014

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

SECTION I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued [*unmodified, qualified, adverse, or disclaimer*]: Unmodified

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 auditors’ report issued on compliance for major programs [*unmodified, qualified, adverse, or disclaimer*]: Unmodified

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
84.388	School Improvement Grants Cluster, ARRA - School Improvement Grants, Recovery Act

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2013

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

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

Criteria: Misstatement of the School’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: 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 misstatements 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.

SECTION III – Federal Award Findings and Questioned Costs

None

21ST CENTURY CHARTER SCHOOL @ GARY, INC.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2013**

Financial Statement Findings

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

Conditions and Context: Reconciliations of accounts to sub-ledger and other supporting documentation did not occur in a timely manner.

Recommendations: The School should evaluate accounting procedures to increase timely review and approval of manual journal entries, account reconciliations, and internal financial statements.

Current Status: The School has implemented the recommendations.

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

Conditions and Context: 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.

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

Current Status: The School has implemented the recommendations.

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.