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February 9, 2017

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 Crowe Horwath LLP, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the Gary Middle College, Inc., as of June 30, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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.

This audit report and the Supplemental Audit Report are filed in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

GARY MIDDLE COLLEGE, INC.

FINANCIAL STATEMENTS

June 30, 2016 and 2015

GARY MIDDLE COLLEGE, INC.

FINANCIAL STATEMENTS
June 30, 2016 and 2015

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6
OTHER REPORT AND SUPPLEMENTARY INFORMATION	
OTHER REPORT	10

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gary Middle College, Inc.
Gary, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Gary Middle College, Inc. (the School), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gary Middle College, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows the years then ended in conformity with accounting principles generally accepted in the United States.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
November 4, 2016

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 327,458	\$ 365,058
Grants receivable	54,500	38,530
Prepaid expenses	11,207	16,684
Due from related parties	4,850	1,008
Property and equipment, net	<u>354,553</u>	<u>411,429</u>
Total assets	<u>\$ 752,568</u>	<u>\$ 832,709</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	86,897	88,875
Due to related parties	43,657	6,196
Note payable	<u>200,000</u>	<u>-</u>
Total liabilities	330,554	95,071
NET ASSETS		
Unrestricted	<u>422,014</u>	<u>737,638</u>
Total liabilities and net assets	<u>\$ 752,568</u>	<u>\$ 832,709</u>

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Public support and revenues		
Federal grants	\$ 63,705	\$ 62,240
State and local grants	1,429,355	1,603,666
Supporting services	1,000	21,423
Loss on disposal of property and equipment	-	(17,050)
Total revenue and support	<u>1,494,060</u>	<u>1,670,279</u>
Expenses		
Federal grant funded program activities	63,705	65,365
State and local grant funded program activities	858,765	834,705
School operations and building services	602,332	541,199
Education supporting services	<u>276,149</u>	<u>214,008</u>
Total program expenses	1,800,951	1,655,277
Management and general	<u>8,733</u>	<u>16,978</u>
Total expenses	<u>1,809,684</u>	<u>1,672,255</u>
Change in net assets	(315,624)	(1,976)
Net assets, beginning of year	<u>737,638</u>	<u>739,614</u>
Net assets, end of year	<u>\$ 422,014</u>	<u>\$ 737,638</u>

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (315,624)	\$ (1,976)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	91,735	88,830
Loss on disposal of property and equipment	-	17,050
Change in assets and liabilities		
Grants receivable	(15,970)	26,960
Prepaid expenses	5,477	(10,728)
Due to/from related parties	33,619	45,333
Accounts payable and other accrued expenses	<u>(1,978)</u>	<u>6,372</u>
Net cash from operating activities	<u>(202,741)</u>	<u>171,841</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(34,859)</u>	<u>(62,813)</u>
Net cash from investing activities	<u>(34,859)</u>	<u>(62,813)</u>
Cash flows from financing activities		
Proceeds from issuance of note payable	<u>200,000</u>	-
Net cash from financing activities	<u>200,000</u>	-
Net change in cash and cash equivalents	37,600	109,028
Cash and cash equivalents, beginning of year	<u>365,058</u>	<u>256,030</u>
Cash and cash equivalents, end of year	<u>\$ 327,458</u>	<u>\$ 365,058</u>

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization: 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.

Method of Accounting: The School maintains its accounts on the accrual basis of accounting and prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Income Taxes: The School is exempt from income taxes on income from related activities under Section 501(c)(3) of the U. S. Internal Revenue Code and corresponding state tax law. Accordingly, no provision has been made for federal or state income taxes. Additionally, the School is not considered to be a private foundation under Section 509(a) of the Internal Revenue Code.

The School has adopted applicable guidance with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit will be recorded.

The School does not expect the total amount of unrecorded tax benefits to significantly change in the next 12 months. The School recognizes interest and/or penalties related to income tax matters in income tax expense. The School did not have any amounts accrued for interest and penalties at June 30, 2016 and 2015.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Cash Equivalents: Cash and cash equivalents consist of bank deposits in accounts that are federally insured up to \$250,000. Bank balances may periodically exceed FDIC insured limits. For the purpose of the statement of cash flows, the School considers all highly liquid instruments, if any, purchased with a maturity of three months or less to be cash equivalent.

Grants Receivable: Grants receivable balances consist of amounts billed or billable for services provided or contracted and are due within one year. The School does not accrue interest on any of its grants receivables.

(Continued)

GARY MIDDLE COLLEGE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowances: No allowance for doubtful accounts is recorded as of June 30, 2016 and 2015. The allowances are based upon prior experience and management's analysis of specific receivables and promises to give. Losses are charged off to the reserve when management deems further collection efforts will no longer produce additional recoveries. The School currently considers all receivables to be fully collectible.

Property and Equipment: Expenditures for property and equipment and items in excess of \$500 which substantially increase the useful lives of existing assets are capitalized at cost or at fair value at date of gift. Repairs and maintenance costs are expensed as incurred. Depreciation has been computed on straight-line method at rates designed to depreciate the costs of assets over their estimated useful lives as follows:

Property and equipment	3-7 years
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Impairment of Long-Lived Assets: In accordance with GAAP, the School reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. As of June 30, 2016 and 2015, management believes that no impairment exists.

Fair Value of Financial Instruments: The carrying value of all the School's financial instruments, which include cash and cash equivalents, accounts payable and note payable, approximate fair values. Grants receivable are not readily marketable. The School has estimated their fair value to be the carrying value.

Basis of Presentation: The School follows GAAP and reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets – The unrestricted net asset class includes general assets and liabilities of the School. The unrestricted net assets of the School may be used at the discretion of management to support the School's purposes and operations.

Temporarily Restricted Net Assets – The temporarily restricted net asset class includes assets of the School related to gifts and grants with explicit donor-imposed restrictions that have not been met as to specified purpose, or to later periods of time or after specified dates. The School had no temporarily restricted net assets as of June 30, 2016 and 2015.

Permanently Restricted Net Assets – The permanently restricted net asset class includes assets of the School related to contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School had no permanently restricted net assets as of June 30, 2016 and 2015.

Federal and State Grants: Support funded by grants is recognized as the School performs the contracted services under various grant agreements. Grant revenue is typically recognized as earned as the eligible expenses are incurred. Some of the School's grant agreements are not on a cost reimbursement basis, and support is recognized when earned. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

(Continued)

GARY MIDDLE COLLEGE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional and Allocated Expenses: Expenses are charged directly to activities when specifically identifiable. All other costs are allocated to the activities based upon various actual statistical bases. Salaries and related expenses are charged based on the relative amount of time historically spent by personnel.

Advertising: The School expenses advertising costs as incurred. During 2016 and 2015, expenses totaling \$30,348 and \$19,775, were incurred for advertising.

Reclassifications: Certain prior year amounts have been reclassified to conform with the current year presentation. The reclassifications had no effect on results of operations or net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2016, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2016. Management has performed their analysis through November 4, 2016, the date the financial statements were available to be issued.

NOTE 2 - PROPERTY AND EQUIPMENT

At June 30, the carrying value of furniture, equipment, and textbooks consists of the following:

	<u>2016</u>	<u>2015</u>
Property and equipment	\$ 633,132	\$ 598,273
Less: accumulated depreciation	<u>(278,579)</u>	<u>(186,844)</u>
	<u>\$ 354,553</u>	<u>\$ 411,429</u>

Depreciation expense for the years ended June 30, 2016 and 2015 were \$91,735 and \$88,830, respectively.

NOTE 3 - LEASES

The School leases space from 21st Century Charter Schools @ Gary, Inc., a related entity. This lease expired June 30, 2016, and is being renewed on an annual basis. Rent expense totaled \$300,000 for the years ended June 30, 2016 and 2015.

Future minimum lease payments under operating leases at June 30, 2016, are as follows:

2017	<u>\$ 300,000</u>
	<u>\$ 300,000</u>

GARY MIDDLE COLLEGE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 4 - NOTE PAYABLE

Note payable consisted of the following at June 30:

	<u>2016</u>
Note payable to State of Indiana to support school operations, payable semi-annually beginning January 2017, plus interest computed at 1.00%, through maturity in August 2026.	\$ 200,000

The estimated future principal payments due on the note payable are:

2017	\$ 20,000
2018	20,000
2019	20,000
2020	20,000
2021	20,000
Thereafter	<u>100,000</u>
	<u>\$ 200,000</u>

Interest expense during the year ending June 30, 2016 was \$1,005.

NOTE 5 - RELATED PARTY TRANSACTIONS

The School has a management agreement with the Greater Education Opportunities Foundation, Inc., (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, 2016 and 2015, the School paid GEOF fees of \$156,000 and \$200,000, 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. At June 30, 2016 and 2015, the School had a payable to GEOF for \$16,428 and \$4,208, respectively. There was no receivable outstanding at June 30, 2016 and 2015.

At June 30, 2016 and 2015, the School had a receivable balance in the amount of \$4,850 and \$1,008 due from 21st Century Charter School @ Gary, Inc. and a payable to 21st Century Charter School @ Gary, Inc. in the amount of \$27,229 and \$1,988 for various payroll transactions between these entities.

NOTE 6 - CHARTER AGREEMENT

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 \$24,385 and \$24,143 for the years ended June 30, 2016 and 2015, respectively.

GARY MIDDLE COLLEGE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 7 - PENSION PLANS

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 for the years ended June 30, 2016 and 2015.

The School participates in the Indiana Public Retirement System (INPRS). INPRS includes both the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). PERF is a defined benefit pension plan. PERF is a cost sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. TRF is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. The School employees are required to contribute three percent of their annual covered salary. The School is required to contribute an actuarially determined rate determined annually for PERF and TRF. The School's expense for the years ended June 30, 2016 and 2015 were \$42,436 and \$33,571, respectively.

SUPPLEMENTARY INFORMATION

GARY MIDDLE COLLEGE, INC.
OTHER REPORT
Year ended June 30, 2016

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

Indiana State Board of Accounts Compliance Report of Gary Middle College, Inc.

The above report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.