



STATE OF INDIANA
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July 16, 2013

Charter School Board
Career Academy of South Bend, Inc.
3801 Crescent Circle
South Bend, IN 46635

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2011 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Career Academy of South Bend, Inc., as of June 30, 2012, 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 Career Academy of South Bend, 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

CAREER ACADEMY OF SOUTH BEND, INC.

Financial Statements

June 30, 2012

CAREER ACADEMY OF SOUTH BEND, INC.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5-13
Other Reports	14

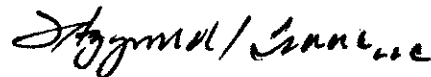
INDEPENDENT AUDITORS' REPORT

The Board of Directors
Career Academy of South Bend, Inc.

We have audited the accompanying statement of financial position of **Career Academy of South Bend, Inc.** (the "School") as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Career Academy of South Bend, Inc. as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



June 12, 2013

CAREER ACADEMY OF SOUTH BEND, INC.

Statement of Financial Position

<u>Assets</u>	<u>June 30, 2012</u>
Current assets:	
Cash	\$ 70,211
Accounts receivable:	
State education support	505,619
Grants	4,357
Other	42,455
Unconditional promises to give	550,000
Prepaid expenses	4,445
Total current assets	<u>1,177,087</u>
Unconditional promises to give	800,000
Property and equipment:	
Land	159,400
Building and improvements	11,193,290
Furniture, fixtures, and equipment	918,769
Construction-in-progress	42,719
Less: accumulated depreciation	<u>(234,155)</u>
Property and equipment, net	<u>12,080,023</u>
	<u>\$ 14,057,110</u>
 <u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses	145,969
Current portion of long-term debt	553,840
Total current liabilities	<u>699,809</u>
Accrued interest on Common School Fund loans	22,013
Long-term debt, net of current portion	<u>11,865,249</u>
Total liabilities	<u>12,587,071</u>
Net assets:	
Unrestricted	220,039
Temporarily restricted	<u>1,250,000</u>
Total net assets	<u>1,470,039</u>
	<u>\$ 14,057,110</u>

See accompanying notes to financial statements.

CAREER ACADEMY OF SOUTH BEND, INC.

Statement of Activities

Revenue, Gains and Support	Year Ended June 30, 2012		
	Unrestricted	Temporarily Restricted	Total
State education support	\$ 1,011,239	-	1,011,239
Grant revenue	456,615	1,500,000	1,956,615
Contributions	987,176	-	987,176
Student fees	13,329	-	13,329
Rent	53,068	-	53,068
Other	23,168	-	23,168
Net assets released from restriction	250,000	(250,000)	-
Total revenue, gains and support	<u>2,794,595</u>	<u>1,250,000</u>	<u>4,044,595</u>
<u>Expenses</u>			
Program services:			
Educational instruction	1,396,036	-	1,396,036
Education support	379,704	-	379,704
Administrative	914,303	-	914,303
Total expenses	<u>2,690,043</u>	<u>-</u>	<u>2,690,043</u>
Increase in net assets	104,552	1,250,000	1,354,552
Net assets, beginning of year	<u>115,487</u>	<u>-</u>	<u>115,487</u>
Net assets, end of year	<u>\$ 220,039</u>	<u>1,250,000</u>	<u>1,470,039</u>

See accompanying notes to financial statements.

CAREER ACADEMY OF SOUTH BEND, INC.

Statement of Cash Flows

	Year Ended June 30, 2012
<u>Operating Activities</u>	
Change in net assets	\$ 1,354,552
Adjustment to reconcile change in net assets to cash flows from operating activities:	
Depreciation	234,155
Change in:	
Accounts receivable	(1,847,231)
Prepaid expenses	(4,445)
Accounts payable and accrued expenses	167,982
Net cash used by operating activities	<u>(94,987)</u>
<u>Investing Activities</u>	
Purchase of property and equipment	(12,087,414)
Proceeds from note receivable	7,300
Net cash used by investing activities	<u>(12,080,114)</u>
<u>Financing Activities</u>	
Proceeds from Common School Fund loan	582,218
Proceeds from other long-term debt	12,268,882
Principal repayments of long-term debt	(630,511)
Net cash provided by financing activities	<u>12,220,589</u>
Net increase in cash	45,488
Cash, beginning of year	<u>24,723</u>
Cash, end of year	<u>\$ 70,211</u>
Supplementary information:	
Cash payments for interest expense	\$ 47,669

See accompanying notes to financial statements.

CAREER ACADEMY OF SOUTH BEND, INC.

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

General

Career Academy of South Bend, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24 and is sponsored by Ball State University. The School commenced operations as of August 2011.

Financial Statement Presentation

The School reports its financial position and activities according to three classes of assets as follows:

- Unrestricted net assets, which represent net assets that the Board of Directors has discretionary control to use in carrying on the activities of the School in accordance with its articles of incorporation and by-laws.
- Temporarily restricted net assets, which represent net assets restricted by the donor, grantor, or other outside party for a specific purpose or until the passage of time.
- Permanently restricted net assets, which represent net assets that are subject to restriction by gift instruments requiring that the principal be invested in perpetuity and only the income be expended, or assets donated with the provision that they not be sold. There were no permanently restricted net assets as of June 30, 2012.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

CAREER ACADEMY OF SOUTH BEND, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in equal monthly installments in January through December following the start of the school year. Revenue is recognized in the year in which the educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Accounts Receivable

Accounts receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

CAREER ACADEMY OF SOUTH BEND, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, and minor replacement costs are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Building and improvements	39 years
Furniture, fixtures, and equipment	3 to 7 years

Taxes on Income

Career Academy of South Bend, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the year ended June 30, 2012, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional standards require the School to recognize a tax liability only if it is more likely than not 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 liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions.

Subsequent Events

The School evaluated subsequent events through June 12, 2013, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

CAREER ACADEMY OF SOUTH BEND, INC.

Notes to Financial Statements

(2) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 represent amounts due relating to the following sources:

Tuition support	\$450,680
Special education grant	<u>54,939</u>
Total.....	<u>\$505,619</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students. The payment schedule is likewise determined by state law, with tuition support payable in equal monthly installments in the calendar year following the start of the school year. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 4).

(3) Unconditional Promises to Give

Unconditional promises to give consisted of the following as of June 30, 2012:

Restricted to payment of debt obligation	\$1,250,000
Restricted for building improvements	<u>100,000</u>
Gross unconditional promises to give	<u>\$1,350,000</u>
Amounts due in:	
Less than one year	\$ 550,000
One to five years.....	<u>800,000</u>
	<u>\$1,350,000</u>

Unconditional promises to give have not been discounted because they either provide for interest on the unpaid balance, or are payable currently.

CAREER ACADEMY OF SOUTH BEND, INC.

Notes to Financial Statements

(4) Long-Term Debt

Long-term debt at June 30, 2012 consisted of the following:

Note payable to the City of South Bend, Indiana (and The Garatoni Family Foundation, as bond holder) relating to the issuance of Economic Development Revenue Bonds, payable \$125,000 quarterly, plus interest at 4% per annum, secured by land and building.....	\$ 1,250,000
Unsecured note payable to The Garatoni Family Foundation, due and payable December 31, 2015, plus interest at 1% per annum...	3,574,346
Unsecured note payable to Larry Garatoni, due and payable December 31, 2015, plus interest at 1% per annum.....	6,320,612
Term note payable to Crescent Michiana Properties LLC, payable \$8,520 monthly, including interest at 7.25% per annum, maturing in October 2021, secured by land and building and guaranteed by The Garatoni Family Foundation.....	691,913
Note payable to the Indiana Common School Fund, payable \$14,555 semi-annually beginning July 1, 2013, plus interest at 4% per annum, maturing in July 2033, secured by unpaid tuition support distributions (see Note 2)	<u>582,218</u>
Total long-term debt.....	12,419,089
Less: current portion.....	<u>(553,840)</u>
	<u>\$11,865,249</u>

CAREER ACADEMY OF SOUTH BEND, INC.

Notes to Financial Statements

(4) Long-Term Debt, Continued

Principal maturities of long-term debt are scheduled as follows:

Year Ending June 30:	
2013	\$ 553,840
2014	586,987
2015	10,236,284
2016	95,989
2017	101,002
Thereafter	<u>844,987</u>
	<u>\$12,419,089</u>

(5) Leases

The School leases certain items of equipment under operating leases. The equipment leases provide for monthly lease payments through April 2017. Lease expense under operating leases for the year ended June 30, 2012 was \$9,516.

Future minimum lease obligations are as follows:

<u>Year Ended June 30:</u>	
2013	\$7,076
2014	7,076
2015	7,076
2016	7,076
2017	1,328

(6) Commitments

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 to Ball State University an annual administrative fee equal to 3% of state tuition support. The charter remains in effect until June 30, 2016 and is renewable thereafter by mutual consent. Payments under this charter agreement were \$27,044 for the year ended June 30, 2012.

CAREER ACADEMY OF SOUTH BEND, INC.

Notes to Financial Statements

(7) Retirement Plan

Retirement benefits for certified teachers are provided by the Indiana State Teachers' Retirement Fund ("TRF"), which is a multiple-employer defined benefit retirement plan governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. Under the plan, the School contributes 7.5% of compensation for all participating personnel. Employees can opt to participate in a 401(k) plan offered through Freedom Retirement Plan Consultants, Inc. in lieu of participating in TRF. The School also contributes 7.5% of compensation to the 401(k) plan. Substantially all full-time employees are eligible to participate in either plan. Retirement plan expense under both plans for the year ended June 30, 2012 was \$52,302.

(8) Related Party Transactions

In the year ended June 30, 2012, the School obtained financing from The Garatoni Family Foundation and Larry Garatoni, individually (see Note 4), relating to the construction of the school facility. Larry Garatoni is the President of the School's Board of Directors and the chief executive officer of HQ Investments Corporation, which manages the investments of The Garatoni Family Foundation. The School also received contributions totaling \$710,000 directly and indirectly from The Garatoni Family Foundation in the year ended June 30, 2012.

(9) Restrictions on Net Assets

Temporarily restricted net assets represent an original \$1,500,000 pledge of tax increment revenues by the South Bend Redevelopment Commission toward the repayment of the School's debt obligation under the City of South Bend economic development revenue bonds (see Note 4). These amounts are considered to be temporarily restricted in that they are limited as to use in future periods. The pledge is to be paid in quarterly installments through November 2014. Payments of \$250,000 were received in the year ended June 30, 2012.

CAREER ACADEMY OF SOUTH BEND, INC.

Notes to Financial Statements

(10) Risks and Uncertainties

The School provides educational instruction services to families residing in St. Joseph and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2012, substantially all of the accounts receivable balance was due from the State of Indiana.

CAREER ACADEMY OF SOUTH BEND, INC.

Notes to Financial Statements

(11) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and services benefited. Following is a summary of expenses comprising each program and service for the year ended June 30, 2012:

	<u>Educational</u> <u>Instruction</u>	<u>Education</u> <u>Support</u>	<u>Admini-</u> <u>strative</u>
Salaries and wages.....	\$ 668,319	99,908	349,828
Employee benefits	157,693	25,946	118,218
Professional services	40,029	21,959	107,715
Staff development and recruitment	41,045	-	-
Authorizer oversight fee	-	-	27,044
Food costs	-	36,355	-
Travel/transportation service	1,680	1,240	10,094
Equipment and rentals	10,595	-	24,796
Repairs and maintenance	-	4,399	-
Classroom, kitchen and office supplies	132,490	16,521	23,458
Occupancy	107,816	157,275	-
Advertising	-	-	58,183
Depreciation	234,155	-	-
Interest	-	-	162,951
Insurance	-	-	5,086
Other	<u>2,214</u>	<u>16,101</u>	<u>26,930</u>
	<u>\$1,396,036</u>	<u>379,704</u>	<u>914,303</u>

CAREER ACADEMY OF SOUTH BEND, INC.

Other Reports

Year Ended June 30, 2012

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

Supplemental Audit Report of Career Academy of South Bend, Inc.

The Supplemental Audit 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*.