B44651

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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

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

December 30, 2014

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

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Crowe Horwath LLP, Independent Public Accountants, for the period July 1, 2013 to June 30, 2014. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Gary Middle College, Inc., as of June 30, 2014 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.

The Financial Statements and Independent Auditors' 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, 2014

GARY MIDDLE COLLEGE, INC.

FINANCIAL STATEMENTS
June 30, 3014

CONTENTS

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 statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year 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.

Auditors' Responsibility

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 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, 2014, and the changes in its net assets and its cash flows the year then ended in conformity with accounting principles generally accepted in the United States.

Emphasis of Matters

As discussed in Note 1 to the financial statements; in 2014, the entity elected to report on a FASB basis. Our opinion is not modified with respect to this matter.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
October 30, 2014

GARY MIDDLE COLLEGE, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2014

		2014
ASSETS		
Cash and cash equivalents	$	256,030
Grants receivable		65,490
Prepaid expenses		5,956
Due from related parties		55,361
Property and equipment, net		454,496
Total assets	$	837,333
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$	82,503
Due to related parties		15,216
Total liabilities		97,719
Net Assets		
Unrestricted		739,614
Total liabilities and net assets	$	837,333

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

	2014
Public support and revenues	
Federal grants	$ 360,757
State and local grants	1,885,439
Loss on disposal of property and equipment	(14,650)
Total revenue and support	2,231,546
Expenses	
Federal grant funded program activities	163,896
State and local grant funded program activities	713,976
School operations and building services	555,437
Education supporting Services	222,500
Total program expenses	1,655,809
Management and general	3,178
Total expenses	1,658,987
Change in net assets	572,559
Net assets, beginning of year	167,055
Net assets, end of year	$ 739,614

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

	2014
Cash flows from operating activities	
Change in net assets	$ 572,559
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	82,492
Loss on disposal of property and equipment	14,650
Change in assets and liabilities	
Grants receivable	(65,490)
Prepaid expenses	(5,956)
Due to/from related parties	(202,962)
Accounts payable and other accrued expenses	(47,045)
Net cash from operating activities	348,248
Cash flows from investing activities	
Purchases of property and equipment	(134,235)
Proceeds from disposal of property and equipment	33,750
Net cash from investing activities	(100,485)
Cash flows from financing activities	
Principal payments on notes payable	(16,674)
Net cash from financing activities	(16,674)
Net change in cash and cash equivalents	231,089
Cash and cash equivalents, beginning of year	24,941
Cash and cash equivalents, end of year	$ 256,030
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	$ 319

See accompanying notes to financial statements.

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. The financial statements of the School are combined into the Greater Education Opportunities Foundation (GEOF) financial statements due to economic control.

During 2014, management determined that the previously issued financial statements in conformity with accounting standards adopted by the Governmental Accounting Standards Board (GASB) were incorrect. Management believes, that based on the governance structure of the School, the financial statements of the School should be accounted for under standards adopted by the Financial Accounting Standards Board (FASB). The impact on the change in net assets at July 1, 2013 due to the conversion from GASB to FASB is not considered material.

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 is no longer subject to examination by taxing authorities for years before 2011. 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, 2014.

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. For the purpose of the statement of cash flows, the School considers all highly liquid debt 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)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowances: No allowance for doubtful accounts is recorded as of June, 30, 2014. 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

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, 2014, 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, grants receivable, and accounts payable, approximate fair values.

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, 2014.

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, 2014.

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)

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 2014, expenses totaling $13,212 were incurred for advertising.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2014, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2014. Management has performed their analysis through October 30, 2014, 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:

	2014
Property and equipment	$ 568,460
Less: accumulated depreciation	(113,964)
	$ 454,496

Depreciation expense for the year ended June 30, 2014 was $82,492.

NOTE 3 - LEASES

The School leases space from 21st Century Charter Schools @ Gary, Inc, a related entity. This lease expired June 30, 2014, and is renewed on an annual basis. Rent expense totaled $300,000 for the year ended June 30, 2014.

Future minimum lease payments under operating leases at June 30, 2014, are as follows:

2015	$ 300,000
	$ 300,000

(Continued)

NOTE 4 - RELATED PARTY TRANSACTIONS

The School has a management agreement with GEOF. Under the management agreement, GEOF charges administrative and per student fees in exchange for the management, operation, administration, payroll and accounting services provided. During the year ended June 30, 2014, the School paid GEOF fees of $222,500. 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, 2014, the School had a payable to GEOF for $14,340. A receivable from GEOF is also recorded as of June 30, 2014 in the amount of $53,250 for overpayment of administrative fees and insurance proceeds from the loss on disposal of equipment shown on the Statement of Activities.

The School also had a receivable from 21st Century Charter School @ Gary, Inc. of $2,111 and a payable to 21st Century Charter Schools @ Gary, Inc. for $876 as of June 30, 2014, for various payroll transactions between the entities.

NOTE 5 - 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 $30,761 for the year ended June 30, 2014.

NOTE 6 - 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 year ended June 30, 2014.

The School also participates in the Public Employment Retirement Fund (PERF) and the Teacher’s Retirement Fund (TRF). Employees are required to contribute 3% of gross wages to their respective plan. The School is required to contribute 7.5% to TRF and 11.2% to PERF, respectively. The School’s expense for the year ended June 30, 2014 was $36,277.

SUPPLEMENTARY INFORMATION

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.*