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STATE OF INDIANA

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June 28, 2017

Charter School Board
Career Academy at South Bend, Inc.
3801 Crescent Circle
South Bend, IN 46627

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald Isaac LLC/Donovan PC, 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 Career Academy at South Bend, 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 the Career Academy at 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.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

CAREER ACADEMY OF SOUTH BEND, INC.

Financial Statements

June 30, 2014 and 2013

Fitzgerald | Isaac LLC
Certified Public Accountants

CAREER ACADEMY OF SOUTH BEND, INC.

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Fitzgerald | Isaac LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Career Academy of South Bend, Inc., which comprise the statements of financial position as of June 30, 2014 and 2013, 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 audits 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 auditor's 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 auditor considers 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.

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

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Indianapolis, IN
May 31, 2016

CAREER ACADEMY OF SOUTH BEND, INC.

Statements of Financial Position

	June 30	
Assets	2014	2013
Current assets:		
Cash	$ 617,234	557,242
Accounts receivable:		
Grants	70,807	30,436
Other	-	188
Unconditional promises to give	250,000	550,000
Prepaid expenses	36,564	-
Total current assets	974,605	1,137,866
Unconditional promises to give	-	250,000
Property and equipment:		
Land	159,400	159,400
Building and improvements	11,516,633	11,509,803
Furniture, fixtures, and equipment	1,414,651	1,141,242
Less: accumulated depreciation	(1,250,504)	(726,840)
Property and equipment, net	11,840,180	12,083,605
	$ 12,814,785	13,471,471
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 119,310	84,129
Current portion of long-term debt	312,214	557,876
Refundable advances	-	51,119
Total current liabilities	431,524	693,124
Long-term debt, net of current portion	13,145,157	12,047,178
Total liabilities	13,576,681	12,740,302
Net assets (deficiency):		
Unrestricted	(1,011,896)	(118,831)
Temporarily restricted	250,000	850,000
Total net assets	(761,896)	731,169
	$ 12,814,785	13,471,471

See accompanying notes to financial statements.

CAREER ACADEMY OF SOUTH BEND, INC.

Statement of Activities

	Year Ended June 30, 2014		
Revenue and Support	Unrestricted	Temporarily Restricted	Total
State education support	$ 2,767,446	-	2,767,446
Grant revenue	524,035	-	524,035
Contributions	484,488	-	484,488
Student fees	67,884	-	67,884
Rent	16,900	-	16,900
Other	54,810	-	54,810
Net assets released from restriction	600,000	(600,000)	-
Total revenue and support	4,515,563	(600,000)	3,915,563
Expenses			
Program services	3,877,230	-	3,877,230
Administrative	1,531,398	-	1,531,398
Total expenses	5,408,628	-	5,408,628
Change in net assets	(893,065)	(600,000)	(1,493,065)
Net assets (deficiency), beginning of year	(118,831)	850,000	731,169
Net assets (deficiency), end of year	$ (1,011,896)	250,000	(761,896)

See accompanying notes to financial statements.

CAREER ACADEMY OF SOUTH BEND, INC.

Statement of Activities

	Year Ended June 30, 2013		
Revenue and Support	Unrestricted	Temporarily Restricted	Total
State education support	$ 2,555,786	-	2,555,786
Grant revenue	720,812	-	720,812
Contributions	11,003	100,000	111,003
Student fees	47,473	-	47,473
Rent	137,299	-	137,299
Other	29,173	-	29,173
Net assets released from restriction	500,000	(500,000)	-
Total revenue and support	4,001,546	(400,000)	3,601,546
Expenses			
Program services	3,250,642	-	3,250,642
Administrative	1,166,676	-	1,166,676
Total expenses	4,417,318	-	4,417,318
Change in net assets before non-operating activity	(415,772)	(400,000)	(815,772)
Non-Operating Activity			
Gain due to changes in legislative funding	76,902	-	76,902
Change in net assets	(338,870)	(400,000)	(738,870)
Net assets, beginning of year	220,039	1,250,000	1,470,039
Net assets (deficiency), end of year	$ (118,831)	850,000	731,169

See accompanying notes to financial statements.

CAREER ACADEMY OF SOUTH BEND, INC.

Statements of Cash Flows

	Year Ended June 30	
Operating Activities	2014	2013
Change in net assets	$ (1,493,065)	(738,870)
Adjustment to reconcile change in net assets to cash flows from operating activities:		
Depreciation	523,664	492,685
Gain due to changes in legislative funding	-	(76,902)
Change in:		
Accounts receivable	(40,183)	(756,086)
Prepaid expenses	(36,564)	4,445
Unconditional promises to give	550,000	550,000
Accounts payable and accrued expenses	35,181	(22,496)
Refundable advances	(51,119)	51,119
Net cash used by operating activities	(512,086)	(496,105)
Investing Activities		
Purchase of property and equipment	(280,239)	(496,267)
Net cash used by investing activities	(280,239)	(496,267)
Financing Activities		
Proceeds from Common School Fund loan	-	711,220
Proceeds from other long-term debt, net of repayments	852,317	768,183
Net cash provided by financing activities	852,317	1,479,403
Net increase in cash	59,992	487,031
Cash, beginning of year	557,242	70,211
Cash, end of year	$ 617,234	557,242
Supplementary information:		
Cash payments for interest expense	$ 22,500	209,509

See accompanying notes to financial statements.

(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.

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, 2014 or 2013.

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.

(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 other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in monthly installments in July through June coinciding with the academic 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 statements of activities as net assets released from restriction.

(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 years ended June 30, 2014 and 2013, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting 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. Tax years ending after 2012 are open to audit for both federal and state purposes.

Subsequent Events

The School evaluated subsequent events through May 31, 2016, 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.

(2) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, charter school funding is paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 was eliminated.

In the same session, 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 applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans.....	$1,293,438
Repayment of accrued interest on Common School Fund loans.....	61,357
	1,354,795
Elimination of School funding	(1,277,893)
	$ 76,902

(3) Unconditional Promises to Give

Unconditional promises to give consisted of the following as of June 30, 2014 and 2013:

	2014	2013
Restricted to payment of debt obligation	$250,000	750,000
Restricted for building improvements.....	-	50,000
Gross unconditional promises to give	$250,000	800,000
Amounts due in:		
Less than one year	$250,000	550,000
One to five years.....	-	250,000
	$250,000	800,000

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

(4) 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 years ended June 30, 2014 and 2013 was $7,076 and $7,076.

Future minimum lease obligations are as follows:

Year Ended June 30:	
2015	$ 7,076
2016	7,076
2017	1,328

(5) Long-Term Debt

Long-term debt at June 30, 2014 and 2013 consisted of the following:

	2014	2013
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	$ 250,000	750,000
Unsecured note payable to The Garatoni Family Foundation, due and payable December 31, 2015, plus interest at 1% per annum	4,472,834	3,552,946
Unsecured note payable to Lawrence H. Garatoni, due and payable December 31, 2015, plus interest at 1% per annum	8,154,340	7,664,035
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	580,197	638,073
Total long-term debt	13,457,371	12,605,054
Less: current portion	(312,214)	(557,876)
	$13,145,157	12,047,178

(5) Long-Term Debt, Continued

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

Year Ending June 30:	
2015	$ 312,214
2016	12,694,052
2017	71,891
2018	77,279
2019	83,072
Thereafter	218,863
	$13,457,371

(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 $51,470 and $32,513 for the years ended June 30, 2014 and 2013, respectively.

(7) Related Party Transactions

In the years ended June 30, 2014 and 2013, the School obtained financing from The Garatoni Family Foundation and Lawrence Garatoni individually (see Note 5), relating to the construction of the school facility. Lawrence 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 $440,000 and $710,000 directly and indirectly from Lawrence Garatoni and The Garatoni Family Foundation in the years ended June 30, 2014 and 2013, respectively.

(8) 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 years ended June 30, 2014 and 2013 was $106,605 and $111,986, respectively.

(9) Restrictions on Net Assets

Temporarily restricted net assets as of December 31, 2014 and 2013 were available for the following purposes:

	2014	2013
Debt obligation repayment	$ 250,000	750,000
Purchase of welding equipment.	-	100,000
	$ 250,000	850,000

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose. In 2014 and 2013, the program purpose restrictions were accomplished by the repayment of required debt obligations.

Temporarily restricted net assets for debt obligation repayment 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 5). 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 $500,000 were received in each of the years ended June 30, 2014 and 2013.

(10) Risks and Uncertainties

As reflected in the accompanying financial statements, the School incurred operating deficits for the years ended June 30, 2014 and 2013, resulting in a deficiency in net assets of $761,896 as of June 30, 2014. Management has implemented measures to control operating costs and increase enrollment, which it believes will reduce the annual deficit. Management also believes that it has access to resources that will allow it to meet its obligations until the deficits are eliminated.

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, 2014 and 2013, substantially all of the accounts receivable balance was due from the State of Indiana.

(11) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2013, the School had refundable grant advances in excess of expenditures of $51,119.

(12) 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 between program and management service. Following is a summary of expenses comprising each program and service for the years ended June 30, 2014 and 2013:

	2014	
	Program Services	Management and General
Salaries and wages	$1,509,950	695,044
Employee benefits	372,834	191,745
Professional services	643,730	154,406
Staff development and recruitment	244	-
Authorizer oversight fees	-	51,470
Food costs	16,992	-
Travel/transportation service	44,580	18,514
Equipment and rentals	3,656	23,382
Repairs and maintenance	43,675	-
Classroom, kitchen and office supplies	421,319	38,636
Occupancy	230,490	-
Advertising	-	138,046
Depreciation	523,664	-
Interest	-	167,055
Insurance	-	16,125
Other	66,096	36,975
	$3,877,230	1,531,398

(12) Functional Expense Reporting, Continued

	2013	
	Program Services	Management and General
Salaries and wages	$1,279,828	463,805
Employee benefits	321,896	121,860
Professional services	338,751	119,259
Staff development and recruitment	18,213	-
Authorizer oversight fees	-	32,513
Food costs	15,674	-
Travel/transportation service	29,021	14,083
Equipment and rentals	14,895	31,077
Repairs and maintenance	59,909	-
Classroom, kitchen and office supplies	438,860	33,614
Occupancy	217,116	-
Advertising	-	84,564
Depreciation	492,685	-
Interest	-	209,638
Insurance	-	21,288
Other	23,794	34,975
	$3,250,642	1,166,676

CAREER ACADEMY OF SOUTH BEND, INC.

Other Reports

Year Ended June 30, 2014

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*.