



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B50466

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

July 19, 2018

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

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan CPAs, Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. 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, 2015, 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
Together with Independent Auditors' Report

For the Years Ended June 30, 2015 and 2014



TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
 FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities and Change in Net Assets (Deficiency).....	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7 - 11
 OTHER REPORT	 12



Donovan CPAs

Independent Auditors' Report

To the Board of Directors
Career Academy of South Bend, Inc.

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, 2015 and 2014, and the related statements of activities and change in net assets (deficiency), functional expenses, 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.

Auditors' 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 of 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.

www.cpadonovan.com

Westside Office | 5151 E. U.S. HWY 36, Avon, IN 46123 | 317.745.6411

Northside Office | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

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, 2015 and 2014, and the changes in its net assets (deficiency), functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, stylized "D" and "V".

Indianapolis, Indiana
September 5, 2017

CAREER ACADEMY OF SOUTH BEND, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 206,226	\$ 617,234
Accounts receivable	4,629	-
Grants receivable	8,664	70,807
Unconditional promises to give	-	250,000
Prepaid expenses	52,198	36,564
<i>Total current assets</i>	<u>271,717</u>	<u>974,605</u>
PROPERTY AND EQUIPMENT		
Land	159,400	159,400
Buildings and improvements	11,750,986	11,516,633
Furniture, fixtures and equipment	1,854,170	1,414,651
Construction in process	3,810,385	-
Less: accumulated depreciation	<u>(1,804,922)</u>	<u>(1,250,504)</u>
<i>Property and equipment, net</i>	<u>15,770,019</u>	<u>11,840,180</u>
TOTAL ASSETS	<u>\$ 16,041,736</u>	<u>\$ 12,814,785</u>
LIABILITIES AND NET DEFICIENCY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 294,170	\$ 119,310
Current portion of notes payable	66,878	312,214
<i>Total current liabilities</i>	361,048	431,524
LONG-TERM LIABILITIES		
Notes payable, net of current portion	<u>17,698,508</u>	<u>13,145,157</u>
<i>Total liabilities</i>	<u>18,059,556</u>	<u>13,576,681</u>
NET DEFICIENCY		
Unrestricted	(2,017,820)	(1,011,896)
Temporarily restricted	-	250,000
<i>Total net deficiency</i>	<u>(2,017,820)</u>	<u>(761,896)</u>
TOTAL LIABILITIES AND NET DEFICIENCY	<u>\$ 16,041,736</u>	<u>\$ 12,814,785</u>

See independent auditors' report and accompanying notes to the financial statements

CAREER ACADEMY OF SOUTH BEND, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS (DEFICIENCY)
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>			<u>2014</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT						
State education support	\$ 3,599,904	\$ -	\$ 3,599,904	\$ 2,767,446	\$ -	\$ 2,767,446
Grant revenue	152,789	-	152,789	524,035	-	524,036
Contributions	1,016,664	-	1,016,664	484,488	-	484,488
Student fees	38,508	-	38,508	67,884	-	67,883
Rent	14,300	-	14,300	16,900	-	16,900
Other income	67,759	-	67,759	54,810	-	54,810
Net assets released from restrictions	250,000	(250,000)	-	600,000	(600,000)	-
<i>Total revenue and support</i>	<u>5,139,924</u>	<u>(250,000)</u>	<u>4,889,924</u>	<u>4,515,563</u>	<u>(600,000)</u>	<u>3,915,563</u>
EXPENSES						
Program services	4,321,112	-	4,321,112	3,877,230	-	3,877,230
Management and general	1,824,736	-	1,824,736	1,531,398	-	1,531,398
<i>Total expenses</i>	<u>6,145,848</u>	<u>-</u>	<u>6,145,848</u>	<u>5,408,628</u>	<u>-</u>	<u>5,408,628</u>
CHANGE IN NET ASSETS (DEFICIENCY)	(1,005,924)	(250,000)	(1,255,924)	(893,065)	(600,000)	(1,493,065)
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<u>(1,011,896)</u>	<u>250,000</u>	<u>(761,896)</u>	<u>(118,831)</u>	<u>850,000</u>	<u>731,169</u>
END OF YEAR	<u><u>\$ (2,017,820)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (2,017,820)</u></u>	<u><u>\$ (1,011,896)</u></u>	<u><u>\$ 250,000</u></u>	<u><u>\$ (761,896)</u></u>

See independent auditors' report and accompanying notes to the financial statements

CAREER ACADEMY OF SOUTH BEND, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2015 and 2014

	2015			2014		
	Program Services	Management and General	Total	Program Services	Management and General	Total
EXPENSES						
Salaries and wages	\$ 2,194,388	\$ 963,036	\$ 3,157,424	\$ 1,509,950	\$ 695,044	\$ 2,204,994
Employee benefits	595,242	162,479	757,721	383,374	191,745	575,119
Professional services	107,997	127,292	235,289	620,379	154,406	774,785
Staff development	7,435	-	7,435	244	-	244
Authorizer oversight fees	-	68,943	68,943	-	51,470	51,470
Food costs	22,763	-	22,763	16,992	-	16,992
Travel/transportation service	48,761	8,117	56,878	44,580	18,514	63,094
Equipment and rentals	140	22,181	22,321	3,656	23,382	27,038
Repairs and maintenance	67,808	-	67,808	56,486	-	56,486
Classroom, kitchen and office supplies	297,790	76,061	373,851	421,319	38,636	459,955
Occupancy	326,501	-	326,501	230,490	-	230,490
Information technology	50,919	38,611	89,530	50,901	25,745	76,646
Advertising	-	128,731	128,731	-	138,046	138,046
Depreciation	554,417	-	554,417	523,664	-	523,664
Interest	-	169,987	169,987	-	167,055	167,055
Insurance	-	31,230	31,230	-	16,125	16,125
Other	46,951	28,068	75,019	15,195	11,230	26,425
<i>Total functional expenses</i>	<u>\$ 4,321,112</u>	<u>\$ 1,824,736</u>	<u>\$ 6,145,848</u>	<u>\$ 3,877,230</u>	<u>\$ 1,531,398</u>	<u>\$ 5,408,628</u>

See independent auditors' report and accompanying notes to the financial statements

CAREER ACADEMY OF SOUTH BEND, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Change in net assets (deficiency)	\$ (1,255,924)	\$ (1,493,065)
Adjustments to reconcile change in net assets (deficiency) to net cash used in operating activities:		
Depreciation	554,417	523,664
Changes in certain assets and liabilities:		
Accounts receivable	(4,629)	188
Grants receivable	62,143	(40,371)
Unconditional promises to give	250,000	550,000
Prepaid expenses	(15,634)	(36,564)
Accounts payable and accrued expenses	174,861	35,181
Refundable advances	-	(51,119)
	<hr/>	<hr/>
<i>Net cash used in operating activities</i>	(234,766)	(512,086)
INVESTING ACTIVITIES		
Purchases of property and equipment	(4,484,257)	(280,239)
FINANCING ACTIVITIES		
Net proceeds from notes payable	<hr/> 4,308,015	<hr/> 852,317
NET CHANGE IN CASH	(411,008)	59,992
CASH, BEGINNING OF YEAR	<hr/> 617,234	<hr/> 557,242
CASH, END OF YEAR	<hr/> <u>\$ 206,226</u>	<hr/> <u>\$ 617,234</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	<hr/> <u>\$ 40,024</u>	<hr/> <u>\$ 22,500</u>

See independent auditors' report and accompanying notes to the financial statements

CAREER ACADEMY OF SOUTH BEND, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – 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 as a public charter school established under Indiana Code 20-24. During the years ended June 30, 2015 and 2014, the School was sponsored by Ball State University.

As of June 30, 2015, the School was in the process of a construction project for a second school facility which went on-line for the 2015-2016 school year.

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, 2015 and 2014.

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 amount and disclosures. Actual results could differ from those estimates.

Revenue Recognition – Revenues generally 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 paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which 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.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs 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.

CAREER ACADEMY OF SOUTH BEND, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 and change in net assets (deficiency) as net assets released from restriction.

Property and Equipment – Purchases of 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, minor replacement costs, and equipment purchases with a unit cost of less than \$500 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 and equipment	3 to 7 years

Taxes on Income – Career Academy of South Bend, Inc. has received a determination from the Internal Department of Revenue 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, 2015 and 2014, 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 the 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.

Functional Expenses – The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets (deficiency). Accordingly, certain expenses have been allocated between program and management services.

Reclassifications – Certain figures for 2014 that were previously reported have been reclassified for comparative purposes. These reclassifications had no effect on net deficiency at June 30, 2014.

Subsequent Events – The School evaluated subsequent events through September 5, 2017, 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 THE FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give as of June 30, 2014 were collected during fiscal year 2015. These funds were to be and were used for payment of debt obligations. There were no unconditional promises to give as of June 30, 2015.

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Note payable to the City of South Bend, Indiana	\$ -	\$ 250,000
Unsecured note payable to The Garatoni Family Foundation	9,009,889	4,472,834
Unsecured note payable to Larry Garatoni	8,237,514	8,154,340
Note payable to Crescent Michiana Properties, LLC	<u>517,983</u>	<u>580,197</u>
Total notes payable	17,765,386	13,457,371
Less: current portion	<u>(66,878)</u>	<u>(312,214)</u>
Net long-term notes payable	\$ <u>17,698,508</u>	\$ <u>13,145,157</u>

City of South Bend, Indiana Note Payable – The note payable to the city of South Bend, Indiana was payable in quarterly installments of \$125,000, plus interest at 4% per annum. The note was paid in full during fiscal year 2015.

The Garatoni Family Foundation Note Payable – The note payable to The Garatoni Family Foundation is due and payable on July 31, 2025. The principal amount of the note is due along with interest capitalizing at 1% interest per annum. The note is unsecured.

Larry Garatoni Note Payable – The note payable to Larry Garatoni is due and payable on July 31, 2025. The principal amount of the note is due along with interest capitalizing at 1% interest per annum. The note is unsecured.

Crescent Michiana Properties, LLC Note Payable – The note is payable in monthly installments of \$8,520, including interest at a rate of 7.25% per annum, and matures in October, 2021. The note is secured by land and building property and is guaranteed by The Garatoni Family Foundation.

CAREER ACADEMY OF SOUTH BEND, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 3 - NOTES PAYABLE, Continued

Principal maturities of notes payable are as follows for the years ending June 30:

2016	\$	66,878
2017		71,891
2018		77,279
2019		83,072
2020		89,299
Thereafter		<u>17,376,967</u>
Total	\$	<u><u>17,765,386</u></u>

NOTE 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 both the years ended June 30, 2015 and 2014 was \$7,076.

Future minimum lease obligations for non-cancelable operating leases with initial lease terms in excess of one year are as follows for the year ended June 30:

2016	\$	7,076
2017		1,328

NOTE 5 - RETIREMENT PLANS

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. Should the School elect to withdraw from TRF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF.

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, 2015 and 2014 was \$134,491 and \$106,605, respectively.

CAREER ACADEMY OF SOUTH BEND, INC.
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 6 - COMMITMENTS

During the years ended June 30, 2015 and 2014, the School operated under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercised certain oversight responsibilities. Under this charter, the School agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Payments under this charter agreement were \$68,943 and \$51,470 for the years ended June 30, 2015 and 2014, respectively. The School elected to terminate its charter with Ball State as of June 30, 2015. Thereafter, the School is operating under a charter granted by Trine University.

NOTE 7 - 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, 2015 and 2014, substantially all of the accounts receivable balance was due from the State of Indiana.

NOTE 8 - RELATED PARTY TRANSACTIONS

During the years ended June 30, 2015 and 2014, the School obtained financing from The Garatoni Foundation and Larry Garatoni, individually (see Note 3), 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 \$1,000,000 and \$440,000, directly and indirectly from The Garatoni Family Foundation in the years ended June 30, 2015 and 2014, respectively.

NOTE 9 - RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2014 totaling \$250,000 were available for debt repayment. During 2015, the restriction was accomplished by the repayment of debt. There were no restricted net assets as of June 30, 2015.

CAREER ACADEMY OF SOUTH BEND, INC.
OTHER REPORT
For the Year Ended June 30, 2015

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*.