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January 21, 2020


Charter School Board
Gary Middle College, Inc.
131 East 5th Ave
Gary, IN 46402

We have reviewed the audit report of Gary Middle College, Inc. which was opined upon by Crowe LLP, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Gary Middle College, Inc. as of June 30, 2019 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Crowe LLP prepared the audit report in accordance with guidelines established by the State Board of Accounts.

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, CPA
State Examiner

GARY MIDDLE COLLEGE, INC.

FINANCIAL STATEMENTS

June 30, 2019 and 2018

GARY MIDDLE COLLEGE, INC.

FINANCIAL STATEMENTS

June 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the School has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities* for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Crowe LLP

Crowe LLP

Indianapolis, Indiana
January 13, 2020

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 632,019	\$ 351,016
Grants receivable	31,987	38,741
Prepaid expenses	44,450	20,625
Due from related parties (Note 5)	1,171	47,214
Property and equipment, net (Note 2)	<u>576,061</u>	<u>546,719</u>
Total assets	<u>\$ 1,285,688</u>	<u>\$ 1,004,315</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 100,588	\$ 83,595
Deferred revenue	10,069	-
Due to related parties (Note 5)	16,205	7,237
Note payable (Note 4)	<u>150,000</u>	<u>170,000</u>
Total liabilities	276,862	260,832
NET ASSETS		
Without donor restrictions	<u>1,008,826</u>	<u>743,483</u>
Total liabilities and net assets	<u>\$ 1,285,688</u>	<u>\$ 1,004,315</u>

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Public support and revenues		
Federal grants	\$ 145,210	\$ 136,690
State and local grants	1,770,037	1,760,615
Supporting services	5,728	8,474
Rental income	<u>73,703</u>	<u>-</u>
Total revenue and support	1,994,678	1,905,779
Expenses		
Education services	1,522,173	1,472,781
Management and general	<u>207,162</u>	<u>185,281</u>
Total expenses	<u>1,729,335</u>	<u>1,658,062</u>
Change in net assets	265,343	247,717
Net assets, beginning of year	<u>743,483</u>	<u>495,766</u>
Net assets, end of year	<u>\$ 1,008,826</u>	<u>\$ 743,483</u>

See accompanying notes to financial statements.

GARY MIDDLE COLLEGE, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 265,343	\$ 247,717
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	129,085	121,606
Change in assets and liabilities		
Grants receivable	6,754	40,358
Prepaid expenses	(23,825)	(1,458)
Due to/from related parties	55,011	(54,439)
Accounts payable and other accrued expenses	16,993	(26,790)
Deferred revenue	<u>10,069</u>	<u>-</u>
Net cash from operating activities	<u>459,430</u>	<u>326,994</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(158,427)</u>	<u>(189,770)</u>
Net cash from investing activities	<u>(158,427)</u>	<u>(189,770)</u>
Cash flows from financing activities		
Payments on note payable	<u>(20,000)</u>	<u>(20,000)</u>
Net cash from financing activities	<u>(20,000)</u>	<u>(20,000)</u>
Net change in cash and cash equivalents	281,003	117,224
Cash and cash equivalents, beginning of year	<u>351,016</u>	<u>233,792</u>
Cash and cash equivalents, end of year	<u>\$ 632,019</u>	<u>\$ 351,016</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 1,651	\$ 1,850

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 are 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, 2019 and 2018.

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 equivalents.

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.

Allowances: No allowance for doubtful accounts is recorded as of June, 30, 2019 and 2018. 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.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2019 and 2018, 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 two classes of net assets:

Net Assets Without Donor Restrictions – The net asset without donor restrictions class includes general assets and liabilities of the School. The net assets without donor restrictions of the School may be used at the discretion of management to support the School's purposes and operations.

Net Assets With Donor Restrictions – The net asset with donor restrictions 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 net asset with donor restrictions class also 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 net assets with donor restrictions as of June 30, 2019 and 2018.

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. This includes the School's basic grant support from the State which is based on per-pupil funding. Grant expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Functional and Allocated Expenses: Expenses have been classified as program services and supporting services based on the actual direct expenditures and estimated cost allocations. Supporting services include management and general activities of the School. The School did not incur any fundraising expenses for the years ended June 30, 2019 and 2018.

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GARY MIDDLE COLLEGE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising: The School expenses advertising costs as incurred. During 2019 and 2018, expenses totaling \$14,809 and \$11,867, were incurred for advertising.

Recently Adopted Accounting Guidance: In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, which revises the not-for profit financial reporting model. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The standard requires the School to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories; net assets without donor-imposed restrictions and net assets with donor-imposed restrictions, among other requirements. The School adopted ASU 2016-14 for its fiscal year ending June 30, 2019 and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. The implementation of this ASU did not have a material effect on amounts previously presented.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2019, to determine the need for any adjustments or disclosures to the financial statements for the year ended June 30, 2019. Management has performed their analysis through January 13, 2020, the date the financial statements were available to be issued.

NOTE 2 - PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Property and equipment	\$ 1,223,266	\$ 1,074,335
Less: accumulated depreciation and amortization	<u>(647,205)</u>	<u>(527,616)</u>
	<u>\$ 576,061</u>	<u>\$ 546,719</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$129,085 and \$121,606, respectively.

NOTE 3 - LEASES

In 2016, the School entered into a five-year building lease agreement with a third party through 2022. The original five-year lease term includes subsequent renewal options. Rent expense totaled \$52,757 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments under operating leases at June 30, 2019, are as follows:

2020	\$ 57,023
2021	61,690
2022	<u>21,120</u>
	<u>\$ 140,167</u>

(Continued)

GARY MIDDLE COLLEGE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

NOTE 4 - NOTE PAYABLE

Note payable consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Note payable to State of Indiana Treasurer to support school operations, payable semi-annually beginning January 2017, plus interest computed at 1.00%, through maturity in August 2026.	\$ 150,000	\$ 170,000

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

2020	\$ 20,000
2021	20,000
2022	20,000
2023	20,000
2024	20,000
Thereafter	<u>50,000</u>
	<u>\$ 150,000</u>

Interest expense during the years ending June 30, 2019 and 2018 was \$1,542 and \$1,767, respectively.

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, 2019 and 2018, the School paid GEOF fees of \$174,111 and \$226,397, 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, 2019 and 2018, the School had a payable to GEOF for \$16,205 and \$2,580, respectively. At June 30, 2019 and 2018, the School had a receivable from GEOF in the amount of \$424 and \$0, respectively.

The School periodically has receivables and payables with other charter schools managed by GEOF for shared costs. At June 30, 2019 and 2018, the School had a receivable balance in the amount of \$747 and \$773 due from 21st Century Charter School @ Gary, Inc. and a payable to 21st Century Charter School @ Gary, Inc. in the amount of \$0 and \$4,657 for various payroll transactions between these entities. In August 2018, GEOF opened another school doing business as Gary Middle College West (GMC West). The School had a receivable balance in the amount of \$46,441 due from GMC West at June 30, 2018 for startup costs incurred which will be reimbursed to the School. There was no receivable outstanding related to GMC West at June 30, 2019.

On July 1, 2018, the School entered into a six-year building lease agreement with GMC West maturing on June 30, 2024. The lease requires monthly rent payments of \$6,142 and includes a purchase option for GMC West to purchase the facility from the School at fair market value. The School recognized rental income of \$73,703 for the year ended June 30, 2019.

(Continued)

GARY MIDDLE COLLEGE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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 \$23,442 and \$14,046 for the years ended June 30, 2019 and 2018, respectively.

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, 2019 and 2018.

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 multi-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 multi-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, 2019 and 2018 were \$58,562 and \$47,006, respectively.

NOTE 8 - FUNCTIONAL EXPENSES BY NATURE

The statements of activities report certain categories of expenses attributable to the program and supporting functions of the School. Functions include program expense for education services and management and general activities. The table below presents these functional expenses by their natural classification for the years ended June 30, 2019 and 2018, respectively.

	2019		
	Education Services	Management and General	Total
Salaries and benefits	\$ 927,159	\$ -	\$ 927,159
Student support and supplies	142,463	-	142,463
Office and operation expense	85,680	-	85,680
Depreciation expense	129,085	-	129,085
Building and grounds	75,140	-	75,140
Service contracts	162,646	207,162	369,808
Total expenses	\$ 1,522,173	\$ 207,162	\$ 1,729,335

(Continued)

GARY MIDDLE COLLEGE, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2019 and 2018

NOTE 8 - FUNCTIONAL EXPENSES BY NATURE (Continued)

	2018		
	Education Services	Management and General	Total
Salaries and benefits	\$ 815,755	\$ -	\$ 815,755
Student support and supplies	185,147	-	185,147
Office and operation expense	78,051	-	78,051
Depreciation expense	121,606	-	121,606
Building and grounds	70,598	-	70,598
Service contracts	201,624	185,281	386,905
Total expenses	\$ 1,472,781	\$ 185,281	\$ 1,658,062

NOTE 9 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The School's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 632,019	\$ 351,016
Grants receivable	31,987	38,741
Due from related parties	1,171	47,214
Total financial assets	\$ 665,177	\$ 436,971

As part of the School's liquidity management, the School invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

GARY MIDDLE COLLEGE, INC.
OTHER REPORT
June 30, 2019

The reports presented herein were prepared in addition to another official 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 addressing is *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.