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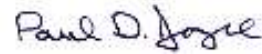
August 20, 2014

Charter School Board
Timothy L. Johnson Academy, Inc.
4625 Werling Drive
Fort Wayne, IN 46806

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Darnell & Meyering, P.C., Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. 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 Timothy L. Johnson Academy, Inc., as of June 30, 2013, 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 Timothy L. Johnson Academy, 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

TIMOTHY L. JOHNSON ACADEMY, INC.

FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

TIMOTHY L. JOHNSON ACADEMY, INC.

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DARNELL & MEYERING, P.C.

Certified Public Accountants

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Independent Auditor's Report

To the Board of Directors of
Timothy L. Johnson Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Timothy L. Johnson Academy, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, 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.

Auditor's 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 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.

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 Timothy L. Johnson Academy, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DARNELL & MEYERING, P.C.

Darnell & Meyering, P.C.

Taylor, Michigan
August 4, 2014

TIMOTHY L. JOHNSON ACADEMY, INC
STATEMENT OF FINANCIAL POSITION

ASSETS

	<u>June 30, 2013</u>
Current Assets	
Cash	\$ 472,474
Grants receivable	<u>50,983</u>
Total current assets	<u>523,457</u>
Property and Equipment	
Structures and improvements	4,623
Vehicles and equipment	277,395
Less accumulated depreciation	<u>(157,222)</u>
Property and equipment, net	<u>124,796</u>
Total assets	<u><u>\$ 648,253</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 18,697
Accrued expenses	84,711
Current portion of long-term debt	<u>11,205</u>
Total current liabilities	114,613
Long-term Liabilities	
Long-term debt, net of current portion	27,219
Net Assets - Unrestricted	<u>506,421</u>
Total liabilities and net assets - unrestricted	<u><u>\$ 648,253</u></u>

The accompanying notes are an integral part of the financial statements.

TIMOTHY L. JOHNSON ACADEMY, INC.
STATEMENT OF ACTIVITIES

	<u>June 30, 2013</u>
Revenues, gain and other support	
State tuition support	\$ 2,034,974
State grants and other support	208,003
Federal grant revenue	486,634
Student fees	1,109
Other	<u>87,226</u>
 Total revenues, gain and other support	 <u>2,817,946</u>
 Expenses	
Program services:	
Educational instruction	843,336
Educational support	447,899
Food service	220,378
Supporting services:	
Support services	641,274
Operations and maintenance	257,517
Transportation	197,241
Lease	112,800
Depreciation	30,688
Interest	<u>3,330</u>
 Total Expenses	 <u>2,754,463</u>
 Non-operating revenue (expense)	
Loss due to changes in legislative funding	<u>(572,127)</u>
 Change in Unrestricted Net Assets	 <u>(508,644)</u>
 Net Assets - Unrestricted, Beginning of Year	
(As Restated, see Note 9)	<u>1,015,065</u>
 Net Assets - Unrestricted, End of Year	 <u><u>\$ 506,421</u></u>

The accompanying notes are an integral part of the financial statements.

TIMOTHY L. JOHNSON ACADEMY, INC.
STATEMENT OF CASH FLOWS

	<u>June 30, 2013</u>
Cash Flows from Operating Activities	
Change in unrestricted net assets	\$ (508,644)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	30,688
(Increase) decrease in operating assets	
Accounts receivable	(13,652)
Prepaid expenses	6,000
Increase (decrease) in operating liabilities	
Accounts payable	(2,570)
Accrued expenses	42,743
	<u>63,209</u>
Net cash provided by operating activities	<u>63,209</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	<u>(17,302)</u>
Net cash used by investing activities	<u>(17,302)</u>
Cash Flows from Financing Activities	
Payments on vehicle loan	(10,429)
Legislative changes - elimination of common school loan	(311,919)
Legislative changes - elimination of school receivable	1,038,016
Legislative changes - elimination of administrative fees	<u>(153,970)</u>
Net cash provided by investing activities	<u>561,698</u>
Net Increase in Cash	98,961
Cash, Beginning of Year	<u>373,513</u>
Cash, End of Year	<u>\$ 472,474</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ 3,177

The accompanying notes are an integral part of the financial statements.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2013

Note 1. Description of Organization

Organization

Timothy L. Johnson Academy, Inc. (the “Academy”) is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The Academy operates a public charter Academy established under Indiana Code 20-24 and is sponsored by Ball State University. The Academy has entered into a service agreement with The Leona Group, LLC, a limited liability company organized in the State of Michigan, to provide educational programming, personnel functions, building operations, and business administration services.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Academy have been prepared on the accrual basis in accordance with generally accepted accounting principles (GAAP) as applied to nonprofit organizations.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenues primarily come from resources provided under the Indiana Charter Academy’s Act. Under the Act, the Academy receives an amount per student in relation to the funding received by public Academy’s in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in equal monthly installments in July through June throughout the Academy year. Revenue is recognized in the year in which the educational services are rendered. See Note 10 regarding legislative funding changes effecting revenue recognition.

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

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2013
(continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Academy considers its cash and cash equivalents to include cash on deposit, cash on hand, money market funds, and all highly liquid investments if purchased with a maturity of three months or less when acquired.

Grants Receivable

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

Income Taxes

Timothy L. Johnson Academy, 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 Academy would be subject to tax on income unrelated to its tax-exempt purpose. For the year ended June 30, 2013, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional standards require the Academy 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 Academy has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2012, 2011 and 2010 are open to audit for both federal and state purposes.

Property and Equipment

Purchases of property and equipment that have an initial individual cost of more than \$1,000, materially increase value, or extend useful lives are capitalized at cost. Routine maintenance and repairs and minor replacement costs are expensed as incurred.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2013
(continued)

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

Leasehold Improvements	4 years
Computers	3 years
Equipment & Furniture	6-7 years
School Buses	8 years

Depreciation expense was \$30,688 for the year ended June 30, 2013.

Basis of Presentation

The financial statement presentation follows the Not-for-Profit Entities topics of the Financial Accounting Standards Codification. The Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted net assets, and permanently restricted net assets. For the year ended June 30, 2013, all net assets were unrestricted.

Subsequent Events

The Academy evaluated subsequent events through August 4, 2014, 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. See Note 6 for disclosure of a subsequent events.

Note 3. Grants Receivable

Grants receivable for state education support as of June 30, 2013 represent amounts due from the Department of Education relating to the following sources:

Title I	\$ 14,823
Title IIA	4,160
Title VB	<u>32,000</u>
Total	<u><u>\$ 50,983</u></u>

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2013
(continued)

Note 4. Long-term Debt

Long term debt at June 30, 2013 was comprised of:

Note payable to Mercedes-Benz Financial Services USA, LLC	\$ 38,424
Less: current maturities	<u>(11,205)</u>
	<u>\$ 27,219</u>

In August 2011, the Academy executed a loan agreement with Mercedes-Benz Financial Services USA, LLC to purchase a bus in the amount of \$56,995. The note is payable in monthly installments of \$1,134, including interest at 7.2% per anum.

Future maturities of long-term debt are as follows:

Year ended June 30:		
2014	\$	11,205
2015		12,038
2016		12,934
2017		2,247
Thereafter		<u>-</u>
	\$	<u>38,424</u>

Note 5. Leases

The Academy leases its Academy facilities and certain items of office equipment under operating leases. The Academy leased two buildings under leases that expired June 30, 2012. In July 2012, the Academy executed a five-year lease with East Allen County Schools, an Indiana public school corporation. Under the lease, the Academy is responsible for its share of real estate taxes, maintenance, insurance, and utilities. The Academy also has an option to purchase the building in the final year of the lease for \$225,000. In July 2012, the Academy executed a one-year lease with St. John Evangelical Lutheran Church and subleased the building to Smith Academy for Excellence. Lease expense under operating leases for the year ended June 30, 2013 was \$112,800.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2013
(continued)

Future minimum obligations under operating leases are as follows:

<u>Year ended June 30:</u>	
2014	\$ 48,000
2015	48,000
2016	48,000
2017	4,000
2018	-

Note 6. Commitments

The Academy has executed a management agreement with The Leona Group, LLC (“Leona”), whereby Leona provides management, administrative, and educational programming services. This agreement remains in effect so long as the Academy maintains its charter, but may be terminated by either party with appropriate advance notice. Under terms of the agreement, the Academy has agreed to pay an amount equal to 10% of revenues, as defined, for such services. Aggregate payments to Leona under this agreement were \$221,497 for the year ended June 30, 2013.

The Academy operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the Academy has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. The charter remained in effect until June 30, 2013, and is renewable thereafter by mutual consent. Payments under this charter agreement were \$58,472 for the year ended June 30, 2013.

In May 2013, the Academy severed its relationship with Ball State University. Effective July 1, 2013, the Academy will operate under a charter granted by Trine University.

Note 7. Retirement Plan

The Academy participates in a Section 401(k) retirement plan sponsored by The Leona Group, LLC for the benefit of its employees. Under the plan, the Academy will match 100% of employee contributions not to exceed 6% of compensation for the plan year. Additional contributions may be made to the plan at the discretion of the board of directors. No discretionary contributions were made in 2013. Retirement plan expense for the year ended June 30, 2013 was \$26,731.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2013
(continued)

Note 8. Risks and Uncertainties

The Academy provides educational instruction services to families residing in Allen 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 Academy. Additionally, the Academy is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the Academy.

Financial instruments that potentially subject the Academy to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2013, substantially all of the grants receivable balance was due from the State of Indiana. In addition, deposits maintained at Charter One Bank frequently exceed the FDIC insurance limit.

Note 9. Prior Period Adjustment

Beginning net assets have been restated to account for two buses that the Academy purchased prior to June 30, 2012. The original cost of the buses totaled \$97,583, and beginning accumulated depreciation should have been \$53,510.

Net assets, June 30, 2012	\$ 970,992
Adjustment	44,073
Restated net assets, June 30, 2012	<u>\$ 1,015,065</u>

Note 10. 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 Academy followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the Academy in the subsequent July through December time period, which represented amounts due for services rendered.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2013
(continued)

Effective July 1, 2013, school funding will be paid following the State of Indiana fiscal year of July to June, which aligns with the Academy's academic year. As part of this legislative amendment, the funding owed to the Academy under prior legislation for the period July to December 2013 will not be received by the Academy.

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 Academy has applied for the received repayments 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 loss due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans	\$ 273,613
Repayment of Common School Fund accrued interest	<u>38,306</u>
	311,919
Elimination Management and Oversight Fees	153,970
Elimination of School Receivable	
Related to Common School Loan Forgiveness	<u>(1,038,016)</u>
	<u><u>\$ (572,127)</u></u>

Note 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, 2013.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2013
(continued)

	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Food Service Support</u>	<u>Supporting Services</u>
Salaries and employee benefits	\$ 800,846	\$ 354,103	\$ 31,726	\$ 502,686
Professional services	3,537	87,605	-	54,193
Staff development and recruitment	-	4,160	-	-
Academic services	-	-	-	221,497
Authorizer oversight fee	-	-	-	58,565
Food costs	-	-	188,652	-
Transportation service	-	-	-	23,510
Equipment rental and expense	-	-	-	4,871
Repairs and maintenance	-	-	-	141,809
Classroom, kitchen and office supplies	38,453	-	-	7,545
Occupancy	-	-	-	173,379
Insurance	-	-	-	18,247
Depreciation	-	-	-	30,688
Interest	-	-	-	3,330
Other	500	2,031	-	2,530
	<u>\$ 843,336</u>	<u>\$ 447,899</u>	<u>\$ 220,378</u>	<u>\$ 1,242,850</u>

TIMOTHY L. JOHNSON ACADEMY, INC.
Other Information
June 30, 2013

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

Supplemental Audit Report of Timothy L. Johnson Academy, 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*.