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November 7, 2014

Charter School Board
Smith Academy for Excellence, Inc.
725 West Washington Boulevard
Fort Wayne, IN 46802

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 Smith Academy for Excellence, 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 Smith Academy for Excellence, 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

SMITH ACADEMY FOR EXCELLENCE, INC.

FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

SMITH ACADEMY FOR EXCELLENCE, INC.

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June 30, 2013

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DARNELL & MEYERING, P.C.

Certified Public Accountants

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AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors of
Smith Academy For Excellence, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Smith Academy For Excellence, 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 Smith Academy For Excellence, 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
October 21, 2014

SMITH ACADEMY FOR EXCELLENCE, INC.
STATEMENT OF FINANCIAL POSITION

ASSETS

	<u>June 30, 2013</u>
Current Assets	
Cash	\$ 41,814
Accounts receivable	<u>33,869</u>
Total current assets	<u>75,683</u>
 Property and Equipment	
Vehicles and equipment	10,000
Less accumulated depreciation	<u>(2,286)</u>
Property and equipment, net	<u>7,714</u>
 Total assets	 <u><u>\$ 83,397</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 22,283
Accrued expenses	<u>9,774</u>
Total current liabilities	32,057
 Net Assets - Unrestricted	 <u>51,340</u>
 Total liabilities and net assets - unrestricted	 <u><u>\$ 83,397</u></u>

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

**SMITH ACADEMY FOR EXCELLENCE, INC.
STATEMENT OF ACTIVITIES**

	June 30, 2013
Revenues	
State education support	\$ 237,585
State grants and other support	232,129
Federal grant revenue	152,538
Student fees	6,907
Other	18,085
Total Revenues	647,244
 Expenses	
Program services:	
Educational instruction	144,042
Educational support	52,537
Food service	47,111
Total Program services	243,690
Supporting services:	
Support services	196,941
Operations and maintenance	44,184
Transportation	41,416
Community services	3,687
Rent	63,800
Depreciation	2,286
Total Supporting services	352,314
Total Expenses	596,004
Change in Unrestricted Net Assets	51,240
Net Assets - Unrestricted, Beginning of Year	100
Net Assets - Unrestricted, End of Year	\$ 51,340

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

**SMITH ACADEMY FOR EXCELLENCE, INC.
STATEMENT OF CASH FLOWS**

	<u>June 30, 2013</u>
Cash Flows from Operating Activities	
Change in net assets	\$ 51,240
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,286
(Increase) decrease in operating assets	
Accounts receivable	(33,869)
Increase (decrease) in operating liabilities	
Accounts payable	22,283
Contracts payable	2,056
Accrued expenses	7,718
	<hr/>
Net cash used by operating activities	474
	<hr/>
Cash Flows from Investing Activities	
Purchase of property and equipment	(10,000)
	<hr/>
Net cash used by investing activities	(10,000)
	<hr/>
Net Increase (Decrease) in Cash	41,714
Cash, Beginning of Year	100
	<hr/>
Cash, End of Year	<u><u>\$ 41,814</u></u>

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

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2013
(continued)

Note 1. Summary of Significant Accounting Policies

Organization

Smith Academy For Excellence, 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 Grace College. 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.

Basis of Accounting

The financial statements of the Academy have been prepared on the accrual basis in accordance with generally accepted accounting principles 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.

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.

SMITH ACADEMY FOR EXCELLENCE, 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

Safe Academy For Excellence, 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 year ending 2012 is 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.

SMITH ACADEMY FOR EXCELLENCE, 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 \$2,286 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 October 21, 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 8 for disclosure of subsequent event.

Note 2. Receivables

Receivables as of June 30, 2013 represent amounts due from the following sources:

Grants Receivable	
Title I	\$ 18,325
Title IIA	3,164
IDEA	5,080
Other Receivables	<u>7,300</u>
Total	<u><u>\$ 33,869</u></u>

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2013
(continued)

Note 3. Leases

The Academy leases its Academy facilities. In August 2012, the Academy executed an eleven month sublease with Timothy L. Johnson Academy, Inc., an Indiana public school corporation. Under the sublease, the Academy is responsible for maintenance, insurance, and utilities. Lease expense under this sublease for the year ended June 30, 2013 was \$63,800.

Note 4. 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 8% of revenues, as defined, for such services. Aggregate payments to Leona under this agreement were \$19,007 for the year ended June 30, 2013.

The Academy operates under a charter granted by Grace College. As the sponsoring organization, Grace College exercises certain oversight responsibilities. Under this charter, the Academy has agreed to pay to Grace College 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 \$7,128 for the year ended June 30, 2013.

Note 5. 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. The Academy had no retirement plan expense for the year ended June 30, 2013.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2013
(continued)

Note 6. 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 accounts receivable balance was due from the State of Indiana. In addition, deposits maintained at Charter One Bank frequently exceed the FDIC insurance limit.

Note 7. 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, public school academies followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the academies in the subsequent July through December time period, which represented amounts due for services rendered.

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

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.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2013
(continued)

These legislative amendments do not affect the Academy because the Academy is in its initial year of operations.

Note 8. Subsequent Event

In July 2013, the Academy executed a one-year lease with St. John Evangelical Lutheran Church, an Indiana nonprofit corporation. Under the lease, the Academy is responsible for its share of real estate taxes, maintenance, insurance, and utilities. The obligation under this lease agreement is projected to be \$78,400 for the year ending June 30, 2014.

Note 9. 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.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2013
(continued)

	Program Services				Total
	Educational Instruction	Education Support	Food Service Support	Supporting Services	
Salaries and employee benefits	\$ 126,961	\$ 6,822	\$ 414	\$ 171,023	\$ 305,220
Professional services	200	45,645	-	38,100	83,945
Academic services	-	-	-	19,007	19,007
Authorizer oversight fee	-	-	-	7,128	7,128
Food costs	-	-	46,697	-	46,697
Transportation service	-	-	-	1,699	1,699
Equipment rental and expense	6,896	-	-	-	6,896
Repairs and maintenance	-	-	-	19,538	19,538
Classroom, kitchen, and office supplies	9,985	70	-	4,202	14,257
Occupancy	-	-	-	68,703	68,703
Insurance	-	-	-	14,401	14,401
Depreciation	-	-	-	2,286	2,286
Other	-	-	-	6,227	6,227
Total expenses	\$ 144,042	\$ 52,537	\$ 47,111	\$ 352,314	\$ 596,004

SMITH ACADEMY FOR EXCELLENCE, 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 Smith Academy For Excellence, 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*.