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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](http://www.in.gov/sboa)

July 21, 2016

Charter School Board  
Smith Academy for Excellence  
725 West Washington Blvd,  
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, 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 Smith Academy for Excellence, 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 Smith Academy for Excellence 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, 2015

SMITH ACADEMY FOR EXCELLENCE, INC.

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June 30, 2015

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**DARNELL & MEYERING, P.C.**  
*Certified Public Accountants*

CLINTON MEYERING, C.P.A.  
RANDALL H. DARNELL, C.P.A.  
DALE A. VESTRAND, C.P.A.

20500 EUREKA ROAD - SUITE 300  
TAYLOR, MI 48180  
(734) 246-9240  
FAX (734) 246-8635

MEMBERS  
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, 2015, 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, 2015, 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  
May 15, 2016

**SMITH ACADEMY FOR EXCELLENCE, INC.**  
**STATEMENT OF FINANCIAL POSITION**

**ASSETS**

	<u><b>June 30, 2015</b></u>
<b>Current Assets</b>	
Cash	\$ 26,908
Grants receivable	13,074
Total current assets	<u>39,982</u>
<b>Property and Equipment</b>	
Vehicles and equipment	208,624
Structures and improvements	3,800
Less accumulated depreciation	<u>(75,547)</u>
Property and equipment, net	<u>136,877</u>
Total assets	<u><u>\$ 176,859</u></u>

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>	
Accounts payable	\$ 5,122
Accrued expenses	<u>61,648</u>
Total current liabilities	66,770
<b>Net Assets - Unrestricted</b>	<u>110,089</u>
Total liabilities and net assets - unrestricted	<u><u>\$ 176,859</u></u>

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

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

	<b>Year Ended June 30, 2015</b>
<b>Revenues</b>	
State education support	\$ 500,901
State Grants	7,779
Federal Grants	320,729
Donations and Gifts	11,950
Student fees	3,400
Local Sources	5,929
Total Revenues	850,688
 <b>Expenses</b>	
Program services:	
Educational instruction	199,295
Educational support	138,411
Food service	46,014
Total Program services	383,720
Supporting services:	
Support services	310,313
Operations and maintenance	26,307
Transportation	46,732
Community services	122
Rent	64,800
Loss on Disposal of Equipment	2,229
Depreciation	55,061
Total Supporting services	505,564
Total Expenses	889,284
 <b>Change in Unrestricted Net Assets</b>	 (38,596)
 <b>Net Assets - Unrestricted, Beginning of Year</b>	 148,685
<b>Net Assets - Unrestricted, End of Year</b>	<b>\$ 110,089</b>

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

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

	<u><b>Year Ended June 30, 2015</b></u>
<b>Cash Flows from Operating Activities</b>	
Change in net assets	<u>\$ (38,596)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Loss on sale of Equipment	2,229
Depreciation	55,061
(Increase) decrease in operating assets	
Accounts receivable	21,485
Other Prepaids	6,600
Increase (decrease) in operating liabilities	
Accounts payable	(20,833)
Contracts payable	52,945
Accrued expenses	(15,029)
Net cash provided by operating activities	<u>102,458</u>
<b>Cash Flows from Investing Activities</b>	
Proceeds from sale of equipment	1,500
Purchase of property and equipment	<u>(121,745)</u>
Net cash used by investing activities	(120,245)
<b>Net Increase (Decrease) in Cash</b>	(56,383)
<b>Cash, Beginning of Year</b>	<u>83,291</u>
<b>Cash, End of Year</b>	<u><u>\$ 26,908</u></u>

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

SMITH ACADEMY FOR EXCELLENCE, INC.  
Notes to Financial Statements  
June 30, 2015

**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, 2015  
(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, 2015, 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 June 30, 2012, 2013 & 2014 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.

SMITH ACADEMY FOR EXCELLENCE, INC.  
Notes to Financial Statements  
June 30, 2015  
(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 \$55,061 for the year ended June 30, 2015.

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, 2014, all net assets were unrestricted.

Subsequent Events

The Academy evaluated subsequent events through May 15, 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. See Note 7 for disclosure of subsequent event.

**Note 2. Receivables**

Receivables as of June 30, 2015 represent amounts due from the following sources:

Grants Receivable	
Title I	\$ 5,207
IDEA	<u>7,867</u>
Total	<u>\$ 13,074</u>

SMITH ACADEMY FOR EXCELLENCE, INC.  
Notes to Financial Statements  
June 30, 2015  
(continued)

**Note 3. Leases**

The Academy leases its Academy facilities. In July 2014, 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. Lease expense under this lease agreement was \$64,800 for the year ending June 30, 2015.

**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 \$40,369 for the year ended June 30, 2015.

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 which was granted in 2012 remains in effect until June 30, 2019, and is renewable thereafter by mutual consent. Payments under this charter agreement were \$15,027 for the year ended June 30, 2015.

**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 2015. The Academy had no retirement plan expense for the year ended June 30, 2015.

SMITH ACADEMY FOR EXCELLENCE, INC.  
Notes to Financial Statements  
June 30, 2015  
(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, 2015, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits maintained at Charter One Bank did not exceed the FDIC insurance limit any time during the year.

**Note 7. Subsequent Events**

In July 2015, the Academy executed a six-month 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 \$30,000 for the six-month period ending December 31, 2015. This lease may be extended into 2016, if it is determined that the space provided is available and suitable to the Academy.

**Note 8. 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, 2015.

SMITH ACADEMY FOR EXCELLENCE, INC.  
Notes to Financial Statements  
June 30, 2015

	<b>Program Services</b>			<b>Supporting Services</b>	<b>Total</b>
	<b>Educational Instruction</b>	<b>Education Support</b>	<b>Food Service Support</b>		
Salaries and employee benefits	\$ 184,707	\$ 56,376	\$ 483	\$ 227,492	\$ 469,058
Professional services	-	13,328	-	60,094	73,422
Academic services	-	-	-	40,369	40,369
Authorizer oversight fee	-	-	-	15,027	15,027
Food costs	-	-	45,531	-	45,531
Transportation service	-	-	-	5,852	5,852
Repairs and maintenance	-	-	-	2,017	2,017
Classroom, kitchen, and office supplies	14,588	68,707	-	4,769	88,064
Occupancy	-	-	-	68,987	68,987
Insurance	-	-	-	16,631	16,631
Depreciation	-	-	-	55,061	55,061
Other	-	-	-	9,265	9,265
<b>Total expenses</b>	<b>\$ 199,295</b>	<b>\$ 138,411</b>	<b>\$ 46,014</b>	<b>\$ 505,564</b>	<b>\$ 889,284</b>

SMITH ACADEMY FOR EXCELLENCE, INC.  
Other Report  
June 30, 2015

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*.