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July 21, 2016

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, 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 Timothy L. Johnson Academy, 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 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
Paul D. Joyce, CPA
State Examiner

TIMOTHY L. JOHNSON ACADEMY, INC.

FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

TIMOTHY L. JOHNSON ACADEMY, INC.

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DARNELL & MEYERING, P.C.
Certified Public Accountants

CLINTON MEYERING, C.P.A.
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CERTIFIED PUBLIC ACCOUNTANTS
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CERTIFIED PUBLIC ACCOUNTANTS

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, 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 Timothy L. Johnson Academy, 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

TIMOTHY L. JOHNSON ACADEMY, INC
STATEMENT OF FINANCIAL POSITION

ASSETS

| | <u>June 30, 2015</u> |
|---------------------------------|--------------------------|
| Current Assets | |
| Cash | \$ 44,267 |
| Accounts receivable | 104,039 |
| Deposits | <u>5,452</u> |
| Total current assets | <u>153,758</u> |
| Property and Equipment | |
| Structures and improvements | 234,263 |
| Vehicles and equipment | 288,933 |
| Less accumulated depreciation | <u>(195,584)</u> |
| Property and equipment, net | <u>327,612</u> |
| Other Assets | |
| Cash restricted, escrow account | <u>50,000</u> |
| Total other assets | <u>50,000</u> |
| Total assets | <u><u>\$ 531,370</u></u> |

LIABILITIES AND NET ASSETS

| | |
|--|--------------------------|
| Current Liabilities | |
| Accounts payable | \$ 32,739 |
| Accrued expenses | 87,233 |
| Current portion of long-term debt | <u>12,934</u> |
| Total current liabilities | 132,906 |
| Long-term Liabilities | |
| Long-term debt, net of current portion | <u>2,247</u> |
| Total liabilities | <u>135,153</u> |
| Net Assets | |
| Unrestricted | 346,217 |
| Temporarily restricted | <u>50,000</u> |
| Total net assets | <u>396,217</u> |
| Total liabilities and net assets | <u><u>\$ 531,370</u></u> |

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

TIMOTHY L. JOHNSON ACADEMY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

| CHANGES IN NET ASSETS | Unrestricted | Temporarily Restricted | Total |
|---|---------------------|-----------------------------------|--------------|
| Revenues, gain and other support | | | |
| State tuition support | \$ 1,632,875 | \$ - | \$ 1,632,875 |
| State grants and other support | 137,635 | - | 137,635 |
| Federal grant revenue | 470,329 | - | 470,329 |
| Other | 13,539 | - | 13,539 |
| | | | |
| Total revenues, gain and other support | 2,254,378 | - | 2,254,378 |
| | | | |
| Expenses | | | |
| Program services: | | | |
| Educational instruction | 824,494 | - | 824,494 |
| Educational support | 245,914 | - | 245,914 |
| Food service | 185,135 | - | 185,135 |
| Supporting services: | | | |
| Support services | 582,686 | - | 582,686 |
| Operations and maintenance | 276,343 | - | 276,343 |
| Transportation | 211,413 | - | 211,413 |
| Lease | 47,467 | - | 47,467 |
| Depreciation | 43,289 | - | 43,289 |
| Interest | 1,519 | - | 1,519 |
| | | | |
| Total Expenses | 2,418,260 | - | 2,418,260 |
| | | | |
| Change in Net Assets | (163,882) | - | (163,882) |
| | | | |
| Net Assets - Beginning of Year | 510,099 | 50,000 | 560,099 |
| | | | |
| Net Assets - End of Year | \$ 346,217 | \$ 50,000 | \$ 396,217 |

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

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

| | <u>June 30, 2015</u> |
|--|-----------------------------|
| Cash Flows from Operating Activities | |
| Change in net assets | \$ (163,882) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 43,289 |
| Leasehold improvement retirement | (4,623) |
| (Increase) decrease in operating assets | |
| Accounts receivable | 64,148 |
| Prepaid expenses | 4,000 |
| Deposits | (5,452) |
| Increase (decrease) in operating liabilities | |
| Accounts payable | 16,183 |
| Accrued expenses | (23,201) |
| Deferred revenue | <u>(21,262)</u> |
| Net cash provided by operating activities | <u>(90,800)</u> |
| Cash Flows from Investing Activities | |
| Purchase of property and equipment | <u>(243,615)</u> |
| Net cash used by investing activities | <u>(243,615)</u> |
| Cash Flows from Financing Activities | |
| Payments on vehicle loan | <u>(12,038)</u> |
| Net cash provided by investing activities | <u>(12,038)</u> |
| Net Decrease in Cash | (346,453) |
| Cash, Beginning of Year | <u>390,720</u> |
| Cash, End of Year | <u><u>\$ 44,267</u></u> |
| Supplemental disclosure of cash flow information | |
| Cash paid during the year for interest | \$ 1,519 |

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

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2015

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 Trine 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.

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, 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

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, 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 2014, 2013 and 2012 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, 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 |
| Buildings | 39 years |
| Computers | 3 years |
| Equipment & Furniture | 6 - 7 years |
| School Buses | 8 years |

Depreciation expense was \$43,289 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, 2015, all net assets were unrestricted, except for \$50,000, which is temporarily restricted under the charter granted by Trine University. Additional information regarding this restriction is contained in Note 7.

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. The Academy has 2 events that it determined should be subsequent and reportable. Additional information regarding these events is contained in Note 11.

Note 3. Accounts Receivable

Accounts receivable as of June 30, 2015 represent amounts due in the form of grants receivable for state education support from the Department of Education and other receivables as follows:

| | | |
|--------------------|----|-------------------|
| Title I | \$ | 26,756 |
| Special Ed. Part B | | 51,894 |
| Child Nutrition | | 22,239 |
| Other Receivables | | 3,150 |
| | | <u>\$ 104,039</u> |

:

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2015
(continued)

Note 4. Long-term Debt

Long term debt at June 30, 2015 was comprised of:

| | |
|-----------------------------|------------------------|
| Mercedes-Benz Fin. Services | \$ 15,181 |
| Less: Current Maturities | <u>12,934</u> |
| | <u><u>\$ 2,247</u></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 annum.

Future maturities of long-term debt are as follows:

| | |
|------|-------------------------|
| 2016 | \$ 12,934 |
| 2017 | <u>2,247</u> |
| | <u><u>\$ 15,181</u></u> |

Note 5. Leases

The Academy leased its Academy facilities and certain items of office equipment under operating leases. 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. Lease expense under operating leases for the year ended June 30, 2015 was \$47,467. On June 26, 2015, the Academy exercised its option to purchase the building for \$225,000.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2015
(continued)

Note 6. Management Services Agreement

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 \$175,383 for the year ended June 30, 2015.

Note 7. Oversight Sponsoring Organization

The Academy operates under a charter granted by Trine University. As the sponsoring organization, Trine University exercises certain oversight responsibilities. Under this charter, the Academy has agreed to pay to Trine University an annual administrative fee equal to 3% of state tuition support. Payments under this charter agreement were \$29,414 for the year ended June 30, 2015. The Academy has also agreed to under this charter, and established an escrow account of no less than \$50,000 to pay for legal, wind down of operations and audit expenses that would be associated with a dissolution should it occur.

Note 8. 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. Retirement plan expense for the year ended June 30, 2015 was \$16,409.

Note 9. 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.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2015
(continued)

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 Citizens Bank frequently exceed the FDIC insurance limit.

Note 10. Related Parties

A board member, Rev. Vernon Graham, of the Academy is the father of the Academy's school leader, Dawn Starks. The board member abstains from voting on any items pertaining to the school leader's salary, employment & evaluation.

A board member, Joe Jordan, of the Academy is the CEO of the Boys and Girls Club of Fort Wayne, Inc. The board member abstains from voting on any items pertaining to the Academy's contract for services with the Boys and Girls Club of Fort Wayne, Inc. After the completion of the current fiscal year the Academy entered into a contract with the Boys and Girls Club of Fort Wayne, Inc. as described in Note 11 Subsequent Events.

Note 11. Subsequent Events

On July 22, 2015 the Academy's Board of Directors entered into a contract with the Boys and Girls Club of Fort Wayne, Inc. to operate a Boys and Girls Club site in the Academy's building. The contract will remain in effect until August 1, 2016. The Academy has agreed to pay the Boys and Girls Club of Fort Wayne for expenses, not to exceed \$72,760, associated with providing afterschool services for students of the Academy.

On July 28, 2015 the Academy's Board of Directors entered into a lease agreement with Community Action of Northeast Indiana, Inc. to provide a portion of the Academy's building for the purpose of providing Head Start services. The term of the lease began on August 1, 2015 and ends on July 31, 2016. Community Action of Northeast Indiana, Inc. will pay the Academy \$32,000 in rent over the term of this lease.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2015
(continued)

Note 12. 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.

| | Program Services | | | Supporting | |
|---|---------------------------|-------------------------|----------------------------|------------------------|---------------------|
| | <u>Educational</u> | <u>Education</u> | <u>Food Service</u> | <u>Services</u> | <u>Total</u> |
| | <u>Instruction</u> | <u>Support</u> | <u>Support</u> | | |
| Salaries and employee benefits | \$ 800,113 | \$ 76,926 | \$ 28,246 | \$ 517,840 | \$ 1,423,125 |
| Professional services | - | 146,573 | - | 54,462 | 201,035 |
| Staff development and recruitment | - | 2,121 | - | - | 2,121 |
| Academic services | - | - | - | 207,492 | 207,492 |
| Authorizer oversight fee | - | - | - | 29,414 | 29,414 |
| Food costs | - | - | 156,889 | - | 156,889 |
| Transportation service | - | - | - | 41,550 | 41,550 |
| Equipment rental and expense | - | - | - | 4,541 | 4,541 |
| Operation and maintenance | - | - | - | 170,762 | 170,762 |
| Classroom, kitchen, and office supplies | 24,381 | 19,783 | - | 14,678 | 58,842 |
| Occupancy | - | - | - | 47,467 | 47,467 |
| Insurance | - | - | - | 28,870 | 28,870 |
| Depreciation | - | - | - | 43,289 | 43,289 |
| Interest | - | - | - | 1,519 | 1,519 |
| Other | - | 511 | - | 833 | 1,344 |
| | <u>-</u> | <u>511</u> | <u>-</u> | <u>833</u> | <u>1,344</u> |
| Total expenses | <u>\$ 824,494</u> | <u>\$ 245,914</u> | <u>\$ 185,135</u> | <u>\$ 1,162,717</u> | <u>\$ 2,418,260</u> |

TIMOTHY L. JOHNSON ACADEMY, INC.

Other Report

Year Ended June 30, 2015

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

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