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July 6, 2017

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

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Darnell & Meyering, PC, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. 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, 2016, 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, 2016

SMITH ACADEMY FOR EXCELLENCE, INC.

Table of Contents

June 30, 2016

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11
Other Report	12

DARNELL & MEYERING, P.C.
Certified Public Accountants

CLINTON MEYERING, C.P.A.
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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.

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, 2016, 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, 2016, 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 26, 2017

SMITH ACADEMY FOR EXCELLENCE, INC.
STATEMENT OF FINANCIAL POSITION

ASSETS

	<u>June 30, 2016</u>
Current Assets	
Cash	\$ 44,916
Grants receivable	12,253
Prepaid expenses	<u>5,000</u>
Total current assets	<u>62,169</u>
Property and Equipment	
Structures and improvements	3,800
Vehicles and equipment	208,624
Structures and improvements	3,800
Less accumulated depreciation	<u>(135,179)</u>
Property and equipment, net	<u>77,245</u>
Total assets	<u><u>\$ 139,414</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 2,305
Accrued expenses	<u>13,067</u>
Total current liabilities	<u>15,372</u>
Net Assets - Unrestricted	<u>124,042</u>
Total liabilities and net assets - unrestricted	<u><u>\$ 139,414</u></u>

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

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

	Year Ended June 30, 2016
Revenues	
State education support	\$ 623,260
State Grants	25,150
Federal Grants	112,142
Student fees	2,893
Local Sources	2,797
	766,242
 Expenses	
Program services:	
Educational instruction	222,919
Educational support	21,873
Food service	53,008
	297,800
Supporting services:	
Support services	277,277
Central services	3,050
Operations and maintenance	18,777
Transportation	35,753
Rent	60,000
Depreciation	59,632
	454,489
	752,289
 Change in Unrestricted Net Assets	 13,953
 Net Assets - Unrestricted, Beginning of Year	 110,089
 Net Assets - Unrestricted, End of Year	 \$ 124,042

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

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

	<u>Year Ended June 30, 2016</u>
Cash Flows from Operating Activities	
Change in net assets	<u>\$ 13,953</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	59,632
(Increase) decrease in operating assets	
Accounts receivable	821
Other Prepaids	(5,000)
Increase (decrease) in operating liabilities	
Accounts payable	(2,816)
Contracts payable	(52,682)
Accrued expenses	4,100
Net cash provided by operating activities	<u>4,055</u>
 Net Increase (Decrease) in Cash	 18,008
 Cash, Beginning of Year	 <u>26,908</u>
 Cash, End of Year	 <u><u>\$ 44,916</u></u>

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

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2016

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, 2016
(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

Smith 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, 2016, 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, 2013, 2014 & 2015 are open to audit for both federal and state purposes.

Property and Equipment

Purchases of property and equipment that 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, 2016
(continued)

Minimum cost thresholds for the Academy’s asset classes are as follows:

		<u>Group Purchase</u>
Leasehold Improvements	\$25,000	
Site Improvements	25,000	
Computers	5,000	\$12,500
Equipment & Furniture	5,000	12,500
School Buses	5,000	
Educational Media & Textbooks	5,000	

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Leasehold Improvements	3-15 years
Site Improvements	15 years
Computers	3 years
Equipment & Furniture	3-6 years
School Buses	8 years
Educational Media & Textbooks	5 years

Depreciation expense was \$59,632 for the year ended June 30, 2016.

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, 2016, all net assets were unrestricted.

Subsequent Events

The Academy evaluated subsequent events through May 26, 2017, 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.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2016
(continued)

Note 2. Receivables

Receivables as of June 30, 2016 represent amounts due from the following sources:

Grants Receivable	
Title I	\$ 8,889.00
IDEA	<u>3,364.00</u>
Total	<u><u>\$ 12,253</u></u>

Note 3. Leases

The Academy leases its Academy facilities. In July 2015, 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 \$60,000 for the year ending June 30, 2016.

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 \$51,868 for the year ended June 30, 2016.

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 of \$13,262 under this charter

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2016
(continued)

agreement were waived by Grace College in order to dedicate funds for improving education for the year ended June 30, 2016.

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 2016. The Academy had no retirement plan expense for the year ended June 30, 2016.

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, 2016, 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 2016, 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, 2016. This lease was extended into 2017 after it was determined that the space provided is available and suitable to the Academy.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2016

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, 2016.

	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Food Service Support</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries and employee benefits	\$ 220,291	\$ 21,539	\$ 38,653	\$ 220,129	\$ 500,612
Professional services	114	-	-	11,471	11,585
Academic services	-	-	-	51,868	51,868
Authorizer oversight fee	-	-	-	-	-
Food costs	-	-	13,810	-	13,810
Transportation service	-	-	-	28,916	28,916
Equipment rental and expense	-	-	-	2,226	2,226
Repairs and maintenance	-	-	-	640	640
Classroom, kitchen, and office supplies	2,514	-	545	3,384	6,443
Occupancy	-	-	-	65,270	65,270
Insurance	-	-	-	10,641	10,641
Depreciation	-	-	-	59,632	59,632
Other	-	334	-	312	646
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 222,919</u>	<u>\$ 21,873</u>	<u>\$ 53,008</u>	<u>\$ 454,489</u>	<u>\$ 752,289</u>

SMITH ACADEMY FOR EXCELLENCE, INC.
Other Report
June 30, 2016

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*.