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July 6, 2017

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, 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 Timothy L. Johnson Academy, Inc., 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 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, 2016

TIMOTHY L. JOHNSON ACADEMY, INC.

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June 30, 2016

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

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MEMBERS  
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CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report**

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

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, 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 Timothy L. Johnson Academy, 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

**TIMOTHY L. JOHNSON ACADEMY, INC**  
**STATEMENT OF FINANCIAL POSITION**

**ASSETS**

	<b>June 30, 2016</b>
<b>Current Assets</b>	
Cash	\$ 150,178
Accounts receivable	100,695
Deposits	5,790
Total current assets	256,663
<b>Property and Equipment</b>	
Structures and improvements	234,263
Vehicles and equipment	321,721
Less accumulated depreciation	(236,913)
Property and equipment, net	319,071
<b>Other Assets</b>	
Cash restricted, escrow account	50,000
Total other assets	50,000
Total assets	\$ 625,734

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>	
Accounts payable	\$ 89,811
Accrued expenses	60,802
Current portion of long-term debt	4,302
Total current liabilities	154,915
<b>Long-term Liabilities</b>	
Long-term debt, net of current portion	3,412
Total liabilities	158,327
<b>Net Assets</b>	
Unrestricted	417,407
Temporarily restricted	50,000
Total net assets	467,407
Total liabilities and net assets	\$ 625,734

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, 2016**

<b>CHANGES IN NET ASSETS</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenues, gain and other support</b>			
State tuition support	\$ 2,169,304	\$ -	\$ 2,169,304
State grants and other support	27,666	-	27,666
Federal grant revenue	477,456	-	477,456
Other	61,074	-	61,074
	<hr/>	<hr/>	<hr/>
Total revenues, gain and other support	2,735,500	-	2,735,500
	<hr/>	<hr/>	<hr/>
<b>Expenses</b>			
Program services:			
Educational instruction	828,686	-	828,686
Educational support	318,121	-	318,121
Food service	226,737	-	226,737
Community services	69,266	-	69,266
Supporting services:			
Support services	615,891	-	615,891
Operations and maintenance	369,773	-	369,773
Transportation	191,953	-	191,953
Lease	1,200	-	1,200
Depreciation	41,329	-	41,329
Interest	1,354	-	1,354
	<hr/>	<hr/>	<hr/>
Total Expenses	2,664,310	-	2,664,310
	<hr/>	<hr/>	<hr/>
<b>Change in Net Assets</b>	71,190	-	71,190
	<hr/>	<hr/>	<hr/>
<b>Net Assets - Beginning of Year</b>	346,217	50,000	396,217
	<hr/>	<hr/>	<hr/>
<b>Net Assets - End of Year</b>	\$ 417,407	\$ 50,000	\$ 467,407
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

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

	<u>June 30, 2016</u>
<b>Cash Flows from Operating Activities</b>	
Change in net assets	\$ 71,190
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	41,329
(Increase) decrease in operating assets	
Accounts receivable	3,344
Deposits	(338)
Increase (decrease) in operating liabilities	
Accounts payable	57,072
Accrued expenses	<u>(26,431)</u>
Net cash provided by operating activities	<u>146,166</u>
<b>Cash Flows from Investing Activities</b>	
Purchase of property and equipment	<u>(32,788)</u>
Net cash used by investing activities	<u>(32,788)</u>
<b>Cash Flows from Financing Activities</b>	
Proceeds from equipment loan	9,600
Payments on vehicle and equipment loans	<u>(17,067)</u>
Net cash used by investing activities	<u>(7,467)</u>
<b>Net Increase in Cash</b>	105,911
<b>Cash, Beginning of Year</b>	<u>44,267</u>
<b>Cash, End of Year</b>	<u><u>\$ 150,178</u></u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ 1,354

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

TIMOTHY L. JOHNSON ACADEMY, INC.  
Notes to Financial Statements  
June 30, 2016

**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, 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

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, 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 2015, 2014 and 2013 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.

TIMOTHY L. JOHNSON ACADEMY, 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 \$41,329 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, 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 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. The Academy has no subsequent events that were determined to be reportable.

TIMOTHY L. JOHNSON ACADEMY, INC.  
Notes to Financial Statements  
June 30, 2016  
(continued)

**Note 3. Accounts Receivable**

Accounts receivable as of June 30, 2016 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	\$	69,424
Special Ed. Part B		4,907
Child Nutrition		21,736
Other Receivables		4,628
		\$ 100,695
		\$ 100,695

:

**Note 4. Long-term Debt**

Long term debt at June 30, 2016 was comprised of:

Mercedes-Benz Fin. Services	\$	1,127
All Lines Leasing		6,587
		7,714
Less: Current Maturities		4,302
		\$ 3,412

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. The final payment of this loan agreement is due on August 10, 2016.

In July 2015, the Academy executed a lease agreement with All Lines Leasing to purchase equipment in the amount of \$9,600. The note is payable in monthly installments of \$296, including interest at 7.2% per annum. The final payment of this loan agreement is due on June 29, 2018.

TIMOTHY L. JOHNSON ACADEMY, INC.  
Notes to Financial Statements  
June 30, 2016  
(continued)

Future maturities of long-term debt are as follows:

2017	\$ 4,302
2018	<u>3,412</u>
	<u>\$ 7,714</u>

**Note 5. Leases**

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 ended on July 31, 2016. Revenue under the lease was \$29,678 for the year ended June 30, 2016. The lease has been extended to June 30, 2017.

**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 \$217,588 for the year ended June 30, 2016.

**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 \$42,989 for the year ended June 30, 2016. 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.

TIMOTHY L. JOHNSON ACADEMY, INC.  
Notes to Financial Statements  
June 30, 2016  
(continued)

**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 2016. Retirement plan expense for the year ended June 30, 2016 was \$7,059.

**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.

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 Citizens Bank frequently exceed the \$250,000 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. 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 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. The Academy incurred expenses of \$60,633 for the Boys and Girls Club of Fort Wayne.

TIMOTHY L. JOHNSON ACADEMY, INC.  
Notes to Financial Statements  
June 30, 2016

**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, 2016.

	<u>Program Services</u>				<u>Supporting Services</u>	<u>Total</u>
	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Food Service Support</u>	<u>Community Services</u>		
Salaries and employee benefits	\$ 771,040	\$ 203,859	\$ 164,036	\$ 62,606	\$ 583,295	\$ 1,784,836
Professional services	-	109,747	-	-	37,816	147,563
Staff development and recruitment	-	-	-	-	4,247	4,247
Academic services	-	-	-	-	222,512	222,512
Authorizer oversight fee	-	-	-	-	42,989	42,989
Food costs	-	-	61,554	-	-	61,554
Transportation service	-	-	-	-	43,389	43,389
Equipment expense and rental	4,748	-	-	5,557	10,422	20,727
Operation and maintenance	-	-	-	-	169,155	169,155
Classroom, kitchen, and office supplies	52,898	2,478	1,147	1,103	23,458	81,084
Occupancy	-	-	-	-	18,906	18,906
Insurance	-	-	-	-	21,226	21,226
Depreciation	-	-	-	-	41,329	41,329
Interest	-	-	-	-	1,158	1,158
Other	-	2,037	-	-	1,598	3,635
Total expenses	<u>\$ 828,686</u>	<u>\$ 318,121</u>	<u>\$ 226,737</u>	<u>\$ 69,266</u>	<u>\$ 1,221,500</u>	<u>\$ 2,664,310</u>

TIMOTHY L. JOHNSON ACADEMY, INC.

Other Report

Year Ended June 30, 2016

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.