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February 8, 2018

Charter School Board
Timothy L. Johnson Academy, Inc.
4625 Werling Drive,
Fort Wayne, IN 46806

We have reviewed the report prepared by Timothy L. Johnson Academy, Inc. and opined upon by Darnell & Meyering, PC, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Timothy L. Johnson Academy, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Darnell & Meyering, PC prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter 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, 2017

TIMOTHY L. JOHNSON ACADEMY, INC.

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DARNELL & MEYERING, P.C.
Certified Public Accountants

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MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
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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, 2017, 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, 2017, 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
December 27, 2017

TIMOTHY L. JOHNSON ACADEMY, INC
STATEMENT OF FINANCIAL POSITION

ASSETS

	June 30, 2017
Current Assets	
Cash	\$ 205,377
Accounts receivable	3,446
Grants receivable	79,088
Prepaid expenses	1,856
Deposits	5,452
Total current assets	295,219
Property and Equipment	
Structures and improvements	234,263
Vehicles and equipment	321,721
Less accumulated depreciation	(276,257)
Property and equipment, net	279,727
Other Assets	
Cash restricted, escrow account	50,000
Total other assets	50,000
Total assets	\$ 624,946

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 49,509
Accrued expenses	14,800
Other current liabilities	3,495
Deferred revenue	4,401
Current portion of long-term debt	5,325
Total current liabilities	77,530
Long-term Liabilities	
Long-term debt, net of current portion	2,995
Total liabilities	80,525
Net Assets	
Unrestricted	494,421
Temporarily restricted	50,000
Total net assets	544,421
Total liabilities and net assets	\$ 624,946

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, 2017

CHANGES IN NET ASSETS	Unrestricted	Temporarily Restricted	Total
Revenues, gain and other support			
State tuition support	\$ 2,423,279	\$ -	\$ 2,423,279
State grants and other support	34,063	-	34,063
Federal grant revenue	429,720	-	429,720
Other	74,752	-	74,752
	<u>2,961,814</u>	<u>-</u>	<u>2,961,814</u>
Expenses			
Program services:			
Educational instruction	914,446	-	914,446
Educational support	270,927	-	270,927
Food service	235,348	-	235,348
Community services	78,662	-	78,662
Supporting services:			
Support services	683,954	-	683,954
Operations and maintenance	400,124	-	400,124
Transportation	261,423	-	261,423
Depreciation	39,343	-	39,343
Interest	573	-	573
	<u>2,884,800</u>	<u>-</u>	<u>2,884,800</u>
Change in Net Assets	<u>77,014</u>	<u>-</u>	<u>77,014</u>
Net Assets - Beginning of Year	<u>417,407</u>	<u>50,000</u>	<u>467,407</u>
Net Assets - End of Year	<u>\$ 494,421</u>	<u>\$ 50,000</u>	<u>\$ 544,421</u>

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

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

	<u>June 30, 2017</u>
Cash Flows from Operating Activities	
Change in net assets	\$ 77,014
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	39,343
(Increase) decrease in operating assets:	
Accounts & grants receivable	18,161
Prepaid expenses	(1,856)
Deposits	338
Increase (decrease) in operating liabilities:	
Accounts payable	(40,302)
Accrued expenses	(46,001)
Other liabilities	3,495
Deferred revenue	4,401
	<hr/>
Net cash provided by operating activities	54,593
	<hr/>
Cash Flows from Financing Activities	
Proceeds from equipment loan	6,300
Payments on vehicle and equipment loans	(5,694)
	<hr/>
Net cash used by investing activities	606
	<hr/>
Net Increase in Cash	55,199
Cash, Beginning of Year	<hr/> 150,178
Cash, End of Year	<hr/> <hr/> \$ 205,377
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ 573

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

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2017

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, 2017
(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, 2017, 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 2016, 2015 and 2014 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, 2017
(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 \$39,343 for the year ended June 30, 2017.

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, 2017, 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 December 27, 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 one subsequent event that were determined to be reportable and is described in Note 11.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2017
(continued)

Note 3. Accounts Receivable

Accounts receivable as of June 30, 2017 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	\$	29,394
Special Ed. Part B		22,571
Child Nutrition		27,123
Other Receivables		3,446
		82,534
		\$ 82,534

:

Note 4. Long-term Debt

Long term debt at June 30, 2017 was comprised of:

All Lines Leasing	\$	3,412
ABM Equipment		4,908
		8,320
Less: Current Maturities		5,325
		\$ 2,995

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.

In September 2016, the Academy executed a lease agreement with ABM Equipment to purchase two pieces of maintenance equipment in the amount of \$6,300. The note is payable in monthly installments of \$171, including interest at 3.452% per annum. The final payment of this loan agreement is due on December 21, 2019.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2017
(continued)

Future maturities of long-term debt are as follows:

2018	\$ 5,325
2019	1,980
2020	1,015
	<u>\$ 8,320</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 was extended to June 30, 2017. Revenue under the lease was \$38,792 for the year ended June 30, 2017. The lease has been extended to June 30, 2018.

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 \$242,720 for the year ended June 30, 2017. The Academy and The Leona Group, LLC agreed to terminate this agreement as of June 30, 2017.

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 \$46,937 for the year ended June 30, 2017. 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, 2017
(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 2017. Retirement plan expense for the year ended June 30, 2017 was \$12,489.

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, 2017, 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, 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 \$72,760 for the Boys and Girls Club of Fort Wayne.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2017
(continued)

Note 11. Subsequent Event

As of July 1, 2017, the Academy has entered into a service agreement with Phalen Leadership Academy, Inc., a corporation organized in the State of Indiana, to provide educational programming, personnel functions, building operations, and business administration services. The service agreement is for five years and will expire on June 30, 2022.

TIMOTHY L. JOHNSON ACADEMY, INC.
Notes to Financial Statements
June 30, 2017
(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, 2017.

	Program Services				Supporting Services	Total
	Educational Instruction	Education Support	Food Services	Community Services		
Salaries and employee benefits	\$ 858,061	\$ 211,851	\$ 173,608	\$ 74,821	\$ 668,200	\$ 1,986,541
Professional services	-	55,611	-	-	39,989	95,600
Staff development and recruitment	-	-	-	-	931	931
Academic services	-	-	-	-	276,727	276,727
Authorizer oversight fee	-	-	-	-	46,937	46,937
Food costs	-	-	58,841	-	-	58,841
Transportation service	-	-	-	-	66,501	66,501
Equipment expense and rental	-	41	-	2,521	12,344	14,906
Operation and maintenance	-	-	-	-	175,670	175,670
Classroom, kitchen, and office supplies	56,385	2,246	2,899	1,320	10,411	73,261
Occupancy	-	-	-	-	18,488	18,488
Insurance	-	-	-	-	26,779	26,779
Depreciation	-	-	-	-	39,343	39,343
Interest	-	-	-	-	573	573
Other	-	1,178	-	-	2,524	3,702
Total expenses	\$ 914,446	\$ 270,927	\$ 235,348	\$ 78,662	\$ 1,385,417	\$ 2,884,800