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January 9, 2020

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

We have reviewed the audit report of Smith Academy for Excellence, Inc. which was opined upon by Darnell & Meyering, PC, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Smith Academy for Excellence, Inc. as of June 30, 2019 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 the audit report in accordance with guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

SMITH ACADEMY FOR EXCELLENCE, INC.

FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2019

SMITH ACADEMY FOR EXCELLENCE, INC.

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DARNELL & MEYERING, P.C.
Certified Public Accountants

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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.

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, 2019, 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, 2019, 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 23, 2019

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

ASSETS

	June 30, 2019
Current Assets	
Cash	\$ 289,694
Grants receivable	52,745
Total current assets	342,439
 Property and Equipment	
Vehicles and equipment	227,573
Structures and improvements	3,800
Construction in process	2,500
Less accumulated depreciation	(220,858)
Property and equipment, net	13,015
Total assets	\$ 355,454

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 4,465
Accrued expenses	46,989
Total current liabilities	51,454
 Net Assets, Without Donor Restrictions	
Without donor restrictions	279,000
With donor restrictions	25,000
Total net assets	304,000
Total liabilities and net assets	\$ 355,454

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

SMITH ACADEMY FOR EXCELLENCE, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
State education support	\$ 692,486	\$ -	\$ 692,486
State grants	48,063	-	48,063
Federal grants	119,605	-	119,605
Donations and gifts	-	25,000	25,000
Student fees	236	-	236
Local sources	3,077	-	3,077
	<u>863,467</u>	<u>25,000</u>	<u>888,467</u>
Total revenue and support			
Expenses			
Program services:			
Educational instruction	240,794	-	240,794
Educational support	18,873	-	18,873
Food service	50,485	-	50,485
	<u>310,152</u>	<u>-</u>	<u>310,152</u>
Total program services			
Supporting services:			
Support services	349,725	-	349,725
Central services	247	-	247
Operations and maintenance	28,601	-	28,601
Transportation	34,901	-	34,901
Rent	60,000	-	60,000
Depreciation	14,363	-	14,363
	<u>487,837</u>	<u>-</u>	<u>487,837</u>
Total supporting services			
Total expenses	<u>797,989</u>	<u>-</u>	<u>797,989</u>
Change in Net Assets	<u>65,478</u>	<u>25,000</u>	<u>90,478</u>
Net Assets - Beginning of Year	<u>213,522</u>	<u>-</u>	<u>213,522</u>
Net Assets - End of Year	<u>\$ 279,000</u>	<u>\$ 25,000</u>	<u>\$ 304,000</u>

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, 2019</u>
Cash Flows from Operating Activities	
Change in net assets	<u>\$ 90,478</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	14,363
(Increase) decrease in operating assets	
Grants receivable	(4,367)
Other Prepaids	5,000
Increase (decrease) in operating liabilities	
Accounts payable	2,351
Contracts payable	(851)
Accrued expenses	21,016
Net cash provided by operating activities	<u>37,512</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	<u>(2,500)</u>
Net cash used by investing activities	(2,500)
Net Increase (Decrease) in Cash	125,490
Cash, Beginning of Year	<u>164,204</u>
Cash, End of Year	<u><u>\$ 289,694</u></u>

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

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2019

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.

Financial Statement Presentation

Effective with the June 30, 2019 year end, the Academy adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding the liquidity of financial assets. ASU 2016-14 must be applied on a retrospective basis, therefore the net assets as of and for the year ended June 30, 2018 have been restated in Note 3 to comply with ASU 2016-14.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2019
(continued)

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 coinciding with the academic school 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.

Contributions

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Academy reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and change in net assets as net assets released from restrictions.

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

SMITH ACADEMY FOR EXCELLENCE, INC.

Notes to Financial Statements

June 30, 2019

(continued)

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, 2019, 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, 2016, 2017 & 2018 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.

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

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2019
(continued)

Depreciation expense was \$14,363 for the year ended June 30, 2019.

Subsequent Events

The Academy evaluated subsequent events through December 23, 2019, 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 8 for disclosure of subsequent event.

Note 2. Receivables

Receivables as of June 30, 2019 represent amounts due from the following sources:

Grants Receivable		
Alternative Education	\$	40,156
Title I		7,392
IDEA		5,197
Total	\$	52,745

Note 3. Net Assets

Without Donor Restrictions

Net assets without donor restrictions represent amounts that have been received but not restricted for any identified purpose in future periods. Net assets without donor restrictions were available for use as June 30:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 279,000	\$ 213,522
Board-designated net assets	-	-
Total	\$ 279,000	\$ 213,522

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2019
(continued)

With Donor Restrictions

Net assets with donor restrictions represent contributions that have been received but not expended for the identified purposes or have been donated for use in future periods. Net assets with donor restrictions were available for the following purposes as June 30:

	<u>2019</u>	<u>2018</u>
Expansion capital Project	\$ 25,000	\$ -
	\$ 25,000	\$ -

Note 4. Leases

The Academy leases its Academy facilities. In July 2018, 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, 2019.

Note 5. 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 \$58,817 for the year ended June 30, 2019.

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 combined state tuition support and complexity grant payments. The charter which was granted in 2012 remained in effect until June 30, 2019. The charter has been renewed for five additional school years with an expiration date of June 30, 2024. The Academy paid \$10,123 for administrative fees for the year ended June 30, 2019.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2019
(continued)

Note 6. 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 2019. The Academy had a \$2,942 retirement plan expense for the year ended June 30, 2019.

Note 7. 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, 2019, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits maintained at Charter One Bank did exceed the FDIC insurance limit by \$34,279 on June 30, 2019.

Note 8, Liquidity

Under ASU 2016-4, the Academy is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The Academy's financial assets include cash and grants receivable.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2019
(continued)

Financial assets, June 30, 2019	\$ 342,439
Less those unavailable for general expenditures within one year, due to:	
Restrictions by donor with time or purpose	<u>(25,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 317,439</u>

The Academy receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the Academy must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Academy's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 9. Related Parties

A board member, Cameron Smith, of the Academy is related to two employees of the Academy. The board member abstains from voting and does not participate in any discussions regarding employment or discipline matters of his relatives who are employees as prescribed in the Academy's conflict of interest policy.

Note 10. Subsequent Events

In July 2019, 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. The obligation under this lease agreement is projected to be \$60,000 for the one year period ending June 30, 2020.

On October 17, 2019, the Academy purchased a building located at 2700 East Maple Grove Avenue in Fort Wayne, Indiana. The purchase price of the building was \$69,288 which includes closing costs associated with the purchase. The Academy expects to begin operations in this location after renovations are complete in the fall of 2021.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2019
(continued)

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, 2019.

	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Food Service Support</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries and employee benefits	\$ 233,857	\$ 16,324	\$ 33,172	\$ 257,130	\$ 540,483
Professional services	120	2,549	-	22,379	25,048
Academic services	-	-	-	58,817	58,817
Authorizer oversight fee	-	-	-	10,123	10,123
Food costs	-	-	17,082	-	17,082
Transportation service	-	-	-	31,330	31,330
Repairs and maintenance	-	-	-	8,337	8,337
Classroom, kitchen, and office supplies	6,817	-	231	527	7,575
Occupancy	-	-	-	70,036	70,036
Insurance	-	-	-	13,620	13,620
Depreciation	-	-	-	14,363	14,363
Other	-	-	-	1,175	1,175
Total expenses	<u>\$ 240,794</u>	<u>\$ 18,873</u>	<u>\$ 50,485</u>	<u>\$ 487,837</u>	<u>\$ 797,989</u>