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June 12, 2020

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

We have reviewed the audit report of Timothy L. Johnson Academy Middle School, 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 Timothy L. Johnson Academy Middle School, 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.

This report is filed 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

TIMOTHY L. JOHNSON ACADEMY MIDDLE SCHOOL, INC.

FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2019

TIMOTHY L. JOHNSON ACADEMY MIDDLE SCHOOL, 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 Middle School Academy, Inc.
4625 Werling Drive
Fort Wayne, IN 46806

We have audited the accompanying financial statements of Timothy L. Johnson Academy Middle School, 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 auditors consider 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 Middle School, 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
April 15, 2020

TIMOTHY L. JOHNSON ACADEMY MIDDLE SCHOOL, INC
STATEMENT OF FINANCIAL POSITION

ASSETS

	June 30, 2019
Current Assets	
Cash	\$ 30,937
Grants receivable	26,388
Total current assets	57,325
Property and Equipment	
Furniture and equipment	48,578
Less accumulated depreciation	(9,843)
Property and equipment, net	38,735
Total assets	\$ 96,060

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 10,662
Accrued expenses	9,987
Due to other charter school	40,000
Total liabilities	60,649
Net Assets	
Without donor restrictions:	
Undesignated	35,411
Board-designated net assets	-
Total without donor restrictions	35,411
Total net assets	35,411
Total liabilities and net assets	\$ 96,060

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

TIMOTHY L. JOHNSON ACADEMY MIDDLE SCH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

CHANGES IN NET ASSETS

Revenues, gain and other support

State tuition support	\$ 412,994
State grants and other support	26,500
Federal grant revenue	84,417
Other	<u>220</u>

Total revenues, gain and other support 524,131

Expenses

Program services:

Educational instruction	184,350
Educational support	75,321
Food service	38,133

Supporting services:

Support services	70,971
Operations and maintenance	59,754
Transportation	50,348
Depreciation	<u>9,843</u>

Total Expenses 488,720

Change in Net Assets 35,411

Net Assets - Beginning of Year -

Net Assets - End of Year \$ 35,411

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

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

	<u>June 30, 2019</u>
Cash Flows from Operating Activities	
Change in net assets	\$ 35,411
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	9,843
(Increase) decrease in operating assets	
Accounts & grants receivable	(26,388)
Increase (decrease) in operating liabilities	
Accounts payable	10,662
Accrued expenses	9,987
Other liabilities	<u>40,000</u>
Net cash provided by operating activities	<u>79,515</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	<u>(48,578)</u>
Net cash used by investing activities	<u>(48,578)</u>
Net Increase in Cash	30,937
Cash, Beginning of Year	<u>-</u>
Cash, End of Year	<u><u>\$ 30,937</u></u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ -

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

TIMOTHY L. JOHNSON ACADEMY MIDDLE SCHOOL, INC.
Notes to Financial Statements
June 30, 2019

Note 1. Summary of Significant Accounting Policies

Organization

Timothy L. Johnson Academy Middle School, 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 Phalen Leadership Academies, a nonprofit organization, to provide educational programming, personnel functions, building operations, and business administrative services.

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.

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.

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.

TIMOTHY L. JOHNSON ACADEMY MIDDLE SCHOOL, INC.
Notes to Financial Statements
June 30, 2019
(continued)

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

Timothy L. Johnson Academy Middle School, 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, 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

TIMOTHY L. JOHNSON ACADEMY MIDDLE SCHOOL, INC.
Notes to Financial Statements
June 30, 2019
(continued)

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.

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

Depreciation expense was \$9,843 for the year ended June 30, 2019.

TIMOTHY L. JOHNSON ACADEMY MIDDLE SCHOOL, INC.
Notes to Financial Statements
June 30, 2019
(continued)

Subsequent Events

The Academy evaluated subsequent events through April 15, 2020, 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. Subsequent events are disclosed in Note 8.

Note 2. Receivables

Accounts receivable as of June 30, 2019 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	\$ 16,388
Special Ed. Part B	10,000
	<u>\$ 26,388</u>

:

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, 2019:

Undesignated	\$ 35,411
Board-designated net assets	<u>-</u>
Total	<u>\$ 35,411</u>

With Donor Restrictions

TIMOTHY L. JOHNSON ACADEMY MIDDLE SCHOOL, INC.
Notes to Financial Statements
June 30, 2019
(continued)

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. There were no net assets with donor restrictions as of June 30, 2019.

Note 4. Management Services Agreement

The Academy has executed a management agreement with Phalen Leadership Academy, Inc. (“Phalen”), whereby Phalen 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 Phalen under this agreement were \$55,648 for the year ended June 30, 2019. The service agreement between the Academy and Phalen Leadership Academy, Inc. is for five years and will expire on June 30, 2022.

Note 5. 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 \$8,510 for the year ended June 30, 2019.

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, 2019, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits maintained at PNC Bank did not exceed the \$250,000 FDIC insurance limit.

TIMOTHY L. JOHNSON ACADEMY MIDDLE SCHOOL, INC.
Notes to Financial Statements
June 30, 2019
(continued)

Note 7. 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.

Financial assets, June 30, 2019	\$ 57,325
	<hr/>
Financial assets available to meet cash needs for general expenditures within one year	\$ 57,325
	<hr/> <hr/>

The Academy anticipates that it may receive 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. The Academy has no donor restricted contributions as of June 30, 2019.

Note 8. Subsequent Events

In early March 2020, the United States and the State of Indiana declared a state of emergency due to the global coronavirus disease (COVID – 19) pandemic. The financial impact of COVID-19 will effect subsequent periods of the Academy. The impact of the Academy's future costs, revenue, and any recovery from emergency funding, either federal or state, cannot be estimated at this time.

TIMOTHY L. JOHNSON ACADEMY MIDDLE SCHOOL, INC.
Notes to Financial Statements
June 30, 2019
(continued)

Note 9. 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.

	Program Services			Supporting Services	Total
	Educational Instruction	Education Support	Food Services		
Salaries and employee benefits	\$ 142,107	\$ 60,921	\$ -	\$ 56,802	\$ 259,830
Professional services	10,048	14,400	-	2,316	26,764
Academic services	-	-	-	55,648	55,648
Authorizer oversight fee	-	-	-	8,510	8,510
Food costs	-	-	38,133	-	38,133
Transportation service	-	-	-	13,111	13,111
Equipment expense and rental	-	-	-	4,274	4,274
Operation and maintenance	-	-	-	22,843	22,843
Classroom, kitchen, and office supplies	32,195	-	-	5,142	37,337
Occupancy	-	-	-	3,135	3,135
Insurance	-	-	-	2,964	2,964
Depreciation	-	-	-	9,843	9,843
Other	-	-	-	6,328	6,328
Total expenses	<u>\$ 184,350</u>	<u>\$ 75,321</u>	<u>\$ 38,133</u>	<u>\$ 190,916</u>	<u>\$ 488,720</u>