



STATE OF INDIANA
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February 12, 2021

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 Hodges Accounting & Advisory Services, LLC, Independent Public Accountants, for the period July 1, 2019 to June 30, 2020. 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, 2020 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Hodges Accounting & Advisory Services, LLC 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.

Handwritten signature of Paul D. Joyce in blue ink.

Paul D. Joyce, CPA
State Examiner

SMITH ACADEMY FOR EXCELLENCE, INC.

FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2020

SMITH ACADEMY FOR EXCELLENCE, INC.

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Independent Auditor's Report

To the Board of Directors of
Smith Academy For Excellence, Inc.

Report on the Financial Statements

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, 2020, and the related statements of activities and change in net assets, functional expenses, 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, 2020, 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.

Hodges Accounting & Advisory Services, LLC

Hodges Accounting & Advisory Services

Taylor, Michigan
January 6, 2021

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

ASSETS

	<u>June 30, 2020</u>
Current Assets	
Cash	\$ 212,520
Grants receivable	11,242
Prepaid expenses	<u>5,000</u>
Total current assets	<u>228,762</u>
Property and Equipment	
Vehicles and equipment	214,502
Structures and improvements	38,800
Construction in process	22,670
Land	34,000
Less accumulated depreciation	<u>(215,196)</u>
Property and equipment, net	<u>94,776</u>
Other Assets	
Cash restricted, escrow account	<u>30,000</u>
Total other assets	<u>30,000</u>
Total assets	<u><u>\$ 353,538</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 3,826
Accrued expenses	<u>40,218</u>
Total current liabilities	<u>44,044</u>
Net Assets	
Without donor restrictions	
Undesignated	279,494
Board-designated net assets	<u>30,000</u>
Total net assets	<u>309,494</u>
Total liabilities and net assets	<u><u>\$ 353,538</u></u>

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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
State education support	\$ 681,338	\$ -	\$ 681,338
State grants	8,209	-	8,209
Federal grants	110,019	-	110,019
Donations and gifts	8,518	22,600	31,118
Student fees	83	-	83
Local sources	3,430	-	3,430
	<u>811,597</u>	<u>22,600</u>	<u>834,197</u>
Expenses			
Program services:			
Educational instruction	275,989	-	275,989
Educational support	24,293	-	24,293
Food service	39,758	-	39,758
	<u>340,040</u>	<u>-</u>	<u>340,040</u>
Supporting services:			
Support services	304,019	-	304,019
Central services	10,561	-	10,561
Community services	54,507	-	54,507
Operations and maintenance	22,367	-	22,367
Transportation	29,800	-	29,800
Rent	60,000	-	60,000
Depreciation	7,409	-	7,409
	<u>488,663</u>	<u>-</u>	<u>488,663</u>
	<u>828,703</u>	<u>-</u>	<u>828,703</u>
Non-operating revenue (expense)			
Net assets released from restrictions	47,600	(47,600)	-
	<u>30,494</u>	<u>(25,000)</u>	<u>5,494</u>
Change in Net Assets			
	<u>279,000</u>	<u>25,000</u>	<u>304,000</u>
Net Assets - End of Year	<u>\$ 309,494</u>	<u>\$ -</u>	<u>\$ 309,494</u>

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

SMITH ACADEMY FOR EXCELLENCE, INC.
STATEMENT OF CASH FLOWS

	<u>Year Ended</u> <u>June 30, 2020</u>
Cash Flows from Operating Activities	
Change in net assets	<u>\$ 5,494</u>
Adjustments to reconcile change in	
net assets to net cash provided by operating activities:	
Depreciation	7,409
(Increase) decrease in operating assets	
Grants receivable	41,503
Other Prepays	(5,000)
Increase (decrease) in operating liabilities	
Accounts payable	(639)
Contracts payable	(2,686)
Accrued expenses	(4,085)
Net cash provided by operating activities	<u>36,502</u>
Cash Flows from Investing Activities	
Purchase of property and equipment	<u>(89,170)</u>
Net cash used by investing activities	(89,170)
Net Increase (Decrease) in Cash	(47,174)
Cash, Beginning of Year	<u>289,694</u>
Cash, End of Year	<u><u>\$ 242,520</u></u>

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

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2020

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

The Academy reports its financial position and activities according to two classes of net assets:

Net assets without donor restrictions – which include unrestricted resources that are available for the operating objectives of the Academy; and

Net assets with donor restrictions – which represent resources restricted by donors for specific time or purpose.

As of June 30, 2020, the Academy had only net assets without donor restrictions.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2020
(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.

The Academy has elected to defer implementation of Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces most existing revenue recognition guidance under U.S. GAAP and requires disclosure relating to the nature, amount, timing, and uncertainty of revenue and cash flow arising from contracts with customers. ASU 2014-09 was to take effect for fiscal years beginning after December 15, 2018, but in May 2020, the Financial Accounting Standards Board allowed for a one-year deferral. Management believes the implementation of ASU 2014-09 will not significantly affect how the Academy reports revenue.

Cash and Cash Equivalents

Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. As of June 30, 2020, there were no cash equivalents.

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

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2020
(continued)

income unrelated to its tax-exempt purpose. For the year ended June 30, 2020, 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, 2017, 2018 & 2019 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, 2020
(continued)

Depreciation expense was \$7,409 for the year ended June 30, 2020.

Subsequent Events

The Academy evaluated subsequent events through January 6, 2021, 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.

Note 2. Receivables

Receivables as of June 30, 2020 represent amounts due from the following sources:

Grants Receivable		
Title I	\$	6,988
IDEA		4,144
Stabilization Relief		<u>110</u>
Total	\$	<u><u>11,242</u></u>

Note 3. Leases

The Academy leases its Academy facilities. 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. Lease expense under this lease agreement was \$60,000 for the year ending June 30, 2020. On June 22, 2020, the Academy signed a lease agreement which extended the lease expiration date to June 30, 2021 and maintains the current lease expense of \$60,000 per year.

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.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2020
(continued)

Aggregate payments to Leona under this agreement were \$54,507 for the year ended June 30, 2020.

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 received by the Academy. 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 \$14,870 for administrative fees for the year ended June 30, 2020. The Academy has agreed to under this charter, and established an escrow account of no less than \$30,000 to pay for legal, wind down of operations and audit expenses that would be associated with a dissolution, should it occur.

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 2020. The Academy had a \$9,294 retirement plan expense for the year ended June 30, 2020.

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, 2020, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits maintained did not exceed the FDIC insurance limits on June 30, 2020.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2020
(continued)

Note 7, Liquidity

Under ASU 2016-4, the Academy is required to disclose the assets it has available at June 30, 2020 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. The financial assets available to meet cash needs for general expenditures within one year follows:

Financial assets, June 30, 2019	\$ 253,762
Less those unavailable for general expenditures within one year, due to:	
Board designated, escrow	<u>(30,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 223,762</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 8. 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.

SMITH ACADEMY FOR EXCELLENCE, INC.
Notes to Financial Statements
June 30, 2020
(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, 2020.

	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Food Service Support</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries and employee benefits	\$ 270,954	\$ 15,943	\$ 32,391	\$ 275,489	\$ 594,777
Professional services	-	8,350	-	34,765	43,115
Academic services	-	-	-	54,507	54,507
Authorizer oversight fee	-	-	-	14,871	14,871
Food costs	-	-	6,581	-	6,581
Transportation service	-	-	-	4,794	4,794
Repairs and maintenance	-	-	-	9,040	9,040
Classroom, kitchen, and office supplies	5,035	-	786	11,138	16,959
Occupancy	-	-	-	67,186	67,186
Depreciation	-	-	-	7,409	7,409
Other	-	-	-	497	497
Total expenses	<u>\$ 275,989</u>	<u>\$ 24,293</u>	<u>\$ 39,758</u>	<u>\$ 488,663</u>	<u>\$ 828,703</u>

SMITH ACADEMY FOR EXCELLENCE, INC.
Other Report
June 30, 2020

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*.