

SUMMIT ACADEMY OIC
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

**SUMMIT ACADEMY OIC
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YEARS ENDED JUNE 30, 2017 AND 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Summit Academy OIC
Minneapolis, Minnesota

We have audited the accompanying financial statements of Summit Academy OIC, which comprise the balance sheets as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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.

Board of Directors
Summit Academy OIC

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Academy OIC as of June 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 20, 2017

**SUMMIT ACADEMY OIC
BALANCE SHEETS
JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 796,675	\$ 1,616,756
Program Service Fee Receivables	631,869	400,886
Pledges Receivable - Current Portion	1,463,985	1,436,405
Other Assets	220,051	209,319
Total Current Assets	3,112,580	3,663,366
PROPERTY AND EQUIPMENT		
Land	465,500	465,500
Building and Building Improvements	6,164,130	4,035,279
Automobiles	69,977	69,977
Furniture and Equipment	1,106,280	1,913,059
Total	7,805,887	6,483,815
Less: Accumulated Depreciation	3,636,354	4,199,624
Net Property and Equipment	4,169,533	2,284,191
OTHER ASSETS		
Pledges Receivable - Long-Term	1,003,562	1,657,365
Total Assets	\$ 8,285,675	\$ 7,604,922
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Capital Leases	\$ 18,710	\$ 23,430
Lines of Credit	-	341,237
Notes Payable - Current Maturities	166,262	76,333
Accounts Payable	537,738	326,737
Accrued Payroll and Related Expenses	295,494	207,409
Deferred Revenue	1,896	415
Total Current Liabilities	1,020,100	975,561
LONG-TERM LIABILITIES		
Capital Lease Obligations, Less Current Maturities	31,245	45,065
Notes Payable, Less Current Maturities	1,048,097	1,010,451
Asset Retirement Obligation	203,116	193,395
Total Long-Term Liabilities	1,282,458	1,248,911
Total Liabilities	2,302,558	2,224,472
NET ASSETS		
Unrestricted	3,652,062	802,198
Temporarily Restricted	540,283	2,724,230
Permanently Restricted	1,790,772	1,854,022
Total Net Assets	5,983,117	5,380,450
Total Liabilities and Net Assets	\$ 8,285,675	\$ 7,604,922

See accompanying Notes to Financial Statements.

**SUMMIT ACADEMY OIC
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Support:								
Government Grants	\$ 2,096,331	\$ -	\$ -	\$ 2,096,331	\$ 1,341,180	\$ -	\$ -	\$ 1,341,180
Contributions from Individuals, Corporations, and Foundations	2,313,349	470,000	-	2,783,349	1,221,542	650,014	-	1,871,556
Total Support	<u>4,409,680</u>	<u>470,000</u>	<u>-</u>	<u>4,879,680</u>	<u>2,562,722</u>	<u>650,014</u>	<u>-</u>	<u>3,212,736</u>
Revenue:								
Federal Student Financial Aid	43,159	-	-	43,159	48,852	-	-	48,852
State Student Financial Aid	371,184	-	-	371,184	206,511	-	-	206,511
Tuition from Pell Grants	1,036,815	-	-	1,036,815	808,048	-	-	808,048
Gross Tuition	1,273,920	-	-	1,273,920	1,142,932	-	-	1,142,932
Less: SAOIC Grant	<u>(1,257,262)</u>	<u>-</u>	<u>-</u>	<u>(1,257,262)</u>	<u>(1,130,567)</u>	<u>-</u>	<u>-</u>	<u>(1,130,567)</u>
Net Tuition	1,467,816	-	-	1,467,816	1,075,776	-	-	1,075,776
Rental Income	129,600	-	-	129,600	143,700	-	-	143,700
Special Events (Net of Direct Benefits of \$87,818 and \$87,054 for the Years Ended June 30, 2017 and 2016, Respectively)	428,932	-	-	428,932	477,741	-	-	477,741
Loss on Asset Disposal	(14,148)	-	-	(14,148)	-	-	-	-
Other	167,158	-	-	167,158	92,889	-	-	92,889
Total Revenue	<u>2,179,358</u>	<u>-</u>	<u>-</u>	<u>2,179,358</u>	<u>1,790,106</u>	<u>-</u>	<u>-</u>	<u>1,790,106</u>
Total	6,589,038	470,000	-	7,059,038	4,352,828	650,014	-	5,002,842
Net Assets Released from Restrictions	<u>705,132</u>	<u>(705,132)</u>	<u>-</u>	<u>-</u>	<u>959,750</u>	<u>(959,750)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	7,294,170	(235,132)	-	7,059,038	5,312,578	(309,736)	-	5,002,842

See accompanying Notes to Financial Statements.

**SUMMIT ACADEMY OIC
STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES								
Program Services:								
Training	\$ 3,419,505	\$ -	\$ -	\$ 3,419,505	\$ 2,917,292	\$ -	\$ -	\$ 2,917,292
Service	1,706,020	-	-	1,706,020	1,584,004	-	-	1,584,004
Advocacy	293,083	-	-	293,083	282,719	-	-	282,719
Total Program Services	<u>5,418,608</u>	<u>-</u>	<u>-</u>	<u>5,418,608</u>	<u>4,784,015</u>	<u>-</u>	<u>-</u>	<u>4,784,015</u>
Supporting Services:								
Management and General	794,593	-	-	794,593	693,019	-	-	693,019
Rental Property	152,461	-	-	152,461	245,083	-	-	245,083
Fundraising	497,932	-	-	497,932	471,139	-	-	471,139
Total Supporting Services	<u>1,444,986</u>	<u>-</u>	<u>-</u>	<u>1,444,986</u>	<u>1,409,241</u>	<u>-</u>	<u>-</u>	<u>1,409,241</u>
Total Expenses	<u>6,863,594</u>	<u>-</u>	<u>-</u>	<u>6,863,594</u>	<u>6,193,256</u>	<u>-</u>	<u>-</u>	<u>6,193,256</u>
CHANGE IN OPERATING NET ASSETS	430,576	(235,132)	-	195,444	(880,678)	(309,736)	-	(1,190,414)
NONOPERATING ACTIVITY								
Capital Campaign Revenue	-	436,750	-	436,750	-	1,135,246	1,854,022	2,989,268
Capital Campaign Fundraising Expense	(29,527)	-	-	(29,527)	(205,031)	-	-	(205,031)
Net Assets Released from Restrictions	2,385,565	(2,385,565)	-	-	285,664	(285,664)	-	-
Reclassification of Net Assets (See Note 5)	63,250	-	(63,250)	-	-	-	-	-
Total Nonoperating Activity	<u>2,419,288</u>	<u>(1,948,815)</u>	<u>(63,250)</u>	<u>407,223</u>	<u>80,633</u>	<u>849,582</u>	<u>1,854,022</u>	<u>2,784,237</u>
CHANGE IN NET ASSETS	2,849,864	(2,183,947)	(63,250)	602,667	(800,045)	539,846	1,854,022	1,593,823
Net Assets - Beginning of Year	<u>802,198</u>	<u>2,724,230</u>	<u>1,854,022</u>	<u>5,380,450</u>	<u>1,602,243</u>	<u>2,184,384</u>	<u>-</u>	<u>3,786,627</u>
NET ASSETS - END OF YEAR	<u>\$ 3,652,062</u>	<u>\$ 540,283</u>	<u>\$ 1,790,772</u>	<u>\$ 5,983,117</u>	<u>\$ 802,198</u>	<u>\$ 2,724,230</u>	<u>\$ 1,854,022</u>	<u>\$ 5,380,450</u>

See accompanying Notes to Financial Statements.

**SUMMIT ACADEMY OIC
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017**

	2017								
	Program Services				Supporting Services				
	Training	Service	Advocacy	Total	Management and General	Rental Property	Fundraising	Capital Campaign Fundraising	Total
Salaries	\$ 1,664,525	\$ 997,068	\$ 148,454	\$ 2,810,047	\$ 375,778	\$ 42,824	\$ 374,115	\$ -	\$ 3,602,764
Fringe Benefits	360,748	221,761	20,122	602,631	72,443	11,224	53,697	-	739,995
Professional Fees	322,439	120,106	116,860	559,405	121,365	682	4,120	18,010	703,582
Depreciation	154,304	55,873	3,660	213,837	19,810	45,120	11,709	-	290,476
Occupancy and Utilities	125,666	34,175	2,599	162,440	20,277	49,454	7,169	-	239,340
Equipment Rental and Maintenance	19,298	12,863	724	32,885	3,001	1,206	2,233	-	39,325
Classroom Supplies	137,248	11,677	-	148,925	-	-	-	-	148,925
Postage and Office Supplies	11,277	18,308	204	29,789	12,859	257	7,624	-	50,529
Training, Meetings, and Staff Travel	12,211	25,228	235	37,674	41,087	209	11,830	3,251	94,051
Public Relations and Recruiting	554,273	8,844	-	563,117	26,307	-	9,195	-	598,619
Student Assistance	41,716	131,462	-	173,178	-	-	-	-	173,178
Dues and Subscriptions	6,061	6,936	200	13,197	4,930	-	9,665	-	27,792
Bank Charges and Interest	-	1,322	-	1,322	83,887	-	3,176	8,266	96,651
Other	9,739	60,397	25	70,161	12,849	1,485	3,399	-	87,894
Total	\$ 3,419,505	\$ 1,706,020	\$ 293,083	\$ 5,418,608	\$ 794,593	\$ 152,461	\$ 497,932	\$ 29,527	\$ 6,893,121

See accompanying Notes to Financial Statements.

**SUMMIT ACADEMY OIC
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016**

	2016								
	Program Services				Supporting Services				
	Training	Service	Advocacy	Total	Management and General	Rental Property	Fundraising	Capital Campaign Fundraising	Total
Salaries	\$ 1,442,851	\$ 889,711	\$ 126,903	\$ 2,459,465	\$ 345,505	\$ 61,826	\$ 243,103	\$ 22,478	\$ 3,132,377
Fringe Benefits	298,402	191,641	17,442	507,485	67,894	13,580	34,959	2,176	626,094
Professional Fees	246,113	163,463	130,141	539,717	96,502	878	115,488	137,526	890,111
Depreciation	116,076	47,227	2,446	165,749	13,180	73,673	5,585	-	258,187
Occupancy and Utilities	96,615	37,149	1,681	135,445	13,253	88,630	3,319	-	240,647
Equipment Rental and Maintenance	18,788	8,429	717	27,934	2,413	3,270	1,110	-	34,727
Classroom Supplies	147,310	10,888	-	158,198	-	6	-	-	158,204
Postage and Office Supplies	8,674	14,345	301	23,320	11,105	283	7,512	1,438	43,658
Training, Meetings, and Staff Travel	8,497	14,950	2,660	26,107	34,359	263	9,466	3,495	73,690
Public Relations and Recruiting	502,320	1,085	85	503,490	23,152	-	4,284	1,434	532,360
Student Assistance	21,684	143,766	25	165,475	-	-	-	-	165,475
Dues and Subscriptions	6,306	6,164	200	12,670	5,862	-	9,284	54	27,870
Bank Charges and Interest	-	1,110	-	1,110	61,277	-	1,625	2,355	66,367
Other	3,656	54,076	118	57,850	18,517	2,674	35,404	34,075	148,520
Total	\$ 2,917,292	\$ 1,584,004	\$ 282,719	\$ 4,784,015	\$ 693,019	\$ 245,083	\$ 471,139	\$ 205,031	\$ 6,398,287

See accompanying Notes to Financial Statements.

**SUMMIT ACADEMY OIC
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 602,667	\$ 1,593,823
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	290,476	258,187
Loss on Sale of Fixed Assets	14,148	-
Asset Retirement Obligation	9,721	9,211
Change in Current Assets and Liabilities:		
Program Service Fee Receivables	(230,983)	(253,986)
Pledges Receivable	(238,684)	(2,548,674)
Other Assets	(10,732)	23,561
Accounts Payable	(60,643)	91,246
Accrued Expenses	-	18
Accrued Payroll and Related Expenses	88,085	57,136
Deferred Revenue	1,481	(36,236)
Net Cash Provided (Used) by Operating Activities	465,536	(805,714)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(1,918,322)	(266,345)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Debt	300,000	1,000,000
Payments on Debt	(172,425)	(302,875)
Cash Received from Capital Campaign	864,907	1,502,873
Line of Credit Advances	1,378,171	500,000
Line of Credit Payments	(1,719,408)	(508,763)
Payments on Capital Leases	(18,540)	(18,096)
Net Cash Provided by Financing Activities	632,705	2,173,139
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(820,081)	1,101,080
Cash and Cash Equivalents - Beginning of Year	1,616,756	515,676
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 796,675	\$ 1,616,756
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES INFORMATION		
Equipment Purchased with Capital Lease	\$ -	\$ 9,812
Construction Costs incurred included in Accounts Payable	\$ 271,644	\$ -
Cash Payments for Interest	\$ 96,651	\$ 66,367
Donated Stock	\$ 37,536	\$ 63,508
Net Capital Campaign Activity	\$ 407,223	\$ 2,784,237

See accompanying Notes to Financial Statements.

**SUMMIT ACADEMY OIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Summit Academy OIC (the Organization), a nonprofit organization based in Minneapolis, Minnesota, trains and re-trains the unemployed and underemployed, secures placement for trainees in jobs, and promotes other educational and developmental programs. The Organization has been accredited as a post-secondary vocational school by the Council on Occupational Education.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Financial Statement Presentation

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted — Those resources over which the board of directors has discretionary control.

Temporarily Restricted — Those resources subject to donor imposed restrictions which will be satisfied by actions of the Organization or passage of time.

Permanently Restricted — Those resources subject to a donor imposed restriction that they be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Measurement of Operations

In its statements of activities, the Organization includes in its definition of operations all revenues and expenses that are an integral part of its program and supporting activities. Nonoperating activity consists primarily of contributions and expenses relating to the capital campaign.

Cash

The Organization maintains its cash in checking, savings, and money market accounts which, at times, may exceed federally insured limits.

Program Service Fee Receivables

Program service fee receivables are recorded for amounts that have been earned on government contracts during the fiscal year, as well as amounts due for the annual golf event. The Organization provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. Services are performed on an unsecured basis based on the related contract and no interest is charged. An allowance is provided for receivables when a significant pattern of collectability has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance, which is typically done at year-end. At June 30, 2017 and 2016, the allowance for doubtful accounts was \$-0- and \$12,455, respectively.

**SUMMIT ACADEMY OIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Promises to give are recorded at their net realizable value. Long-term promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the promise is received. Conditional promises to give are not included as support until such time as the conditions are substantially met. As of June 30, 2017 and 2016, an allowance for uncollectible pledges receivable of \$35,460 and \$34,525, respectively, was recorded.

Property and Equipment

Property and equipment includes fixed assets stated at cost at date of acquisition or fair market value at date of donation in the case of donated property. The Organization capitalizes all additions greater than \$1,000. Depreciation of property and equipment is computed on the straight-line basis. The estimated useful lives in determining depreciation are:

Building and Building Improvements	10 - 29 Years
Furniture and Equipment	3 - 5 Years
Automobiles	5 Years

Unemployment Trust

The Organization participates in a trust in which premium payments are deposited to administer self-insurance unemployment claims. The balance as of June 30, 2017 and 2016 was \$160,656 and \$164,571, respectively, and is recorded in other assets.

Asset Retirement Obligation

The Organization has recorded an obligation to dispose of assets that are legally required to be removed at a future date. This obligation has been recorded at its estimated fair value using the net present value of the future obligation using a risk-free interest rate and an estimated inflationary rate.

Deferred Financial Aid Revenue

The Organization charges tuition to its students for a 20-week training program. The financial aid awarded a student for the tuition charge is recorded as deferred revenue on day one of classes and then recognized on a monthly basis as the class session progresses through the 20 weeks.

**SUMMIT ACADEMY OIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Grants, Financial Aid Revenue, and Contracts

Governmental grants, financial aid revenue, and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made or the required services are provided. Funds received but not yet earned are shown as deferred revenue. Expenditures under governmental contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

Contributions

Contributions, unconditional promises to give (pledges receivable), and contributions of donated stock are recognized at fair values and are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When these restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Tax Status

Summit Academy OIC is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and similar Minnesota Statutes. Summit Academy OIC is not considered a private foundation and contributions to the Organization are considered tax deductible.

The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The Organization's tax returns are subject to review and examination by federal and state authorities.

Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing program services and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Salary costs are charged directly to the program they relate to and related costs are allocated based on full-time equivalents. Other costs have been allocated among the program and the supporting services based on full-time equivalents or square footage.

**SUMMIT ACADEMY OIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications have been made in 2016 financial statements to conform to classifications use in 2017. There was no effect on net assets previously reported.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 30, 2017, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATIONS

The Organization maintains a portion of its cash balance in accounts which, at times, may exceed Federal Deposit Insurance Corporation (FDIC) limits. One account held by the Organization was over the FDIC limit in the amount of \$491,553 and \$1,318,904, at June 30, 2017 and 2016, respectively.

The Organization receives much of its funding through grants to fund programs. A significant amount of their program service revenue and program service fee receivables is from a limited number of governmental agencies for 2017 and 2016.

At June 30, 2017, four entities made up 60% of program receivables. At June 30, 2016, three entities made up 67% of the program receivables.

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	2017	2016
Annual Pledges Receivable	\$ 1,463,984	\$ 1,436,405
Capital Campaign Pledges Receivable	1,062,963	1,717,860
Allowance for Uncollectible Pledges	(35,460)	(34,525)
Unamortized Discount	(23,940)	(25,970)
Total	<u>\$ 2,467,547</u>	<u>\$ 3,093,770</u>
Amounts Due in:		
Less than One Year	\$ 1,463,985	\$ 1,436,405
One to Five Years	1,003,562	1,657,365
Total	<u>\$ 2,467,547</u>	<u>\$ 3,093,770</u>

The imputed interest rate utilized for computing the discount for long-term pledges was 1.53%.

SUMMIT ACADEMY OIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 4 NOTES PAYABLE

The Organization entered into a First Mortgage Note with a bank to borrow \$1,000,000. This note is secured by a First Mortgage and Security Agreement which grant the Mortgagor a security interest in all of the Organization's real property, personal property, profits on rental of property, and all judgments or awards made as a result of eminent domain. Effective April 20, 2016, this note was renewed at a rate of 4% per annum. The interest rate is subject to change based on changes in the prime rate (currently 4.25% plus a margin of 1.75%) beginning in May 2021 but may not change more often than five years. Payments include 60 monthly principal and interest payments of \$5,308 beginning May 15, 2016 and 59 monthly principal and interest payments of \$5,910 beginning May 15, 2021. A balloon payment for the remaining principal amount of \$737,335 will be due on April 15, 2026. As of June 30, 2017 and 2016, the outstanding balance on this note was \$971,848 and \$995,589, respectively.

The Organization also entered into a Revolving Line of Credit during 2016 that was modified during 2017 increasing the available borrowings. Available borrowings under the line of credit are \$700,000. Interest is payable monthly at 1.0% above the bank's index rate (4.25% at June 30, 2017), with a floor on the interest rate of 5.0%. The note is due on demand, but if no demand is made, the note is due in full on November 15, 2017. The note is secured by a mortgage on the property located at 935 Olson Memorial Highway and all business assets. No balance was due as of June 30, 2017. As of June 30, 2016, the outstanding balance on the line of credit was \$341,237.

The Organization also entered into a Revolving Line of Credit effective August 19, 2016. Available borrowings under the line of credit are \$500,000. Interest is payable monthly at 1.0% above the bank's index rate (4.25% at June 30, 2017), with a floor on the interest rate of 5.00%. The line of credit expired February 1, 2017. No balance was due as of June 30, 2017.

Effective April 25, 2013, the Organization entered into another borrowing agreement with a bank to finance the purchase of a database. The amount of this loan is \$230,020 at a variable interest rate of 1.0% above the bank's index rate (4.25% at June 30, 2017), with a floor on the interest rate of 5.25%. The note is due on April 25, 2018 and requires monthly payments of \$4,348. As of June 30, 2017 and 2016, the outstanding balance on this loan was \$42,510 and \$91,185, respectively.

Effective July 19, 2016, the Organization entered into a promissory note with a nonprofit organization in the amount of \$300,000. The Organization is required to pay simple interest at the rate of 2% per annum on the unpaid principal balance. The note will mature on June 21, 2019. As of June 30, 2017, the outstanding balance on this loan was \$200,000.

**SUMMIT ACADEMY OIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 4 NOTES PAYABLE (CONTINUED)

As of June 30, 2017 and 2016, there were outstanding note payable balances of \$1,214,359 and \$1,086,784, respectively. Future principal payments for the notes are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 166,262
2019	124,733
2020	25,654
2021	26,717
2022	27,282
Thereafter	843,711
Total Principal Payments	<u>\$ 1,214,359</u>

NOTE 5 NET ASSETS

Temporarily Restricted

Temporarily restricted net assets consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Time Restricted Pledges	\$ 540,283	\$ 1,988,789
Purpose Restricted Pledges	-	735,441
Total	<u>\$ 540,283</u>	<u>\$ 2,724,230</u>

Restrictions Released

Net assets restrictions were released as a result of the following conditions being met:

	<u>2017</u>	<u>2016</u>
Program Expenditures	\$ 2,385,566	\$ 581,328
Time Restrictions Met	705,131	664,086
Total	<u>\$ 3,090,697</u>	<u>\$ 1,245,414</u>

Permanently Restricted

As of June 30, 2017, the permanently restricted net assets consist of amounts held in an endowment for the following purposes:

	<u>2017</u>	<u>2016</u>
Building and Maintenance	\$ 895,386	\$ 1,112,413
Innovation/Strategic Opportunity Fund	895,386	741,609
Total	<u>\$ 1,790,772</u>	<u>\$ 1,854,022</u>

During the year, the Board reallocated approximately \$63,000 of their endowment funds in accordance with their endowment policy to cover future anticipated construction costs.

SUMMIT ACADEMY OIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

NOTE 6 LEASES

The Organization entered into two capital leases for copiers on April 30, 2015. One of the capital leases was for a black and white copier, which required 60 monthly payments of \$653. The other capital lease was for a color copier, which required 60 monthly payments of \$694. Effective February 17, 2016, the Organization entered into another capital lease for a black and white copier, which requires 48 monthly payments of \$215. Future obligations on the remaining lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 18,710
2019	19,122
2020	<u>12,123</u>
Total Payments	49,955
Less: Amount Representing Interest	<u>-</u>
Present Value of Minimum Lease Payments	49,955
Less: Current Maturities	<u>(18,710)</u>
Noncurrent Portion of Obligations Under Capital Lease	<u><u>\$ 31,245</u></u>

The following represents the value of capital leases that are capitalized as furniture and equipment at June 30. Amortization expense is included with depreciation expense in the financial statements.

	<u>2017</u>	<u>2016</u>
Cost	\$ 90,631	\$ 90,631
Accumulated Depreciation	<u>(40,676)</u>	<u>(22,136)</u>
Net Equipment	<u><u>\$ 49,955</u></u>	<u><u>\$ 68,495</u></u>

NOTE 7 RENTAL INCOME

The Organization has a lease agreement to lease part of their building out to Summit Early Learning Center, Inc. The lease was for the period of January 1, 2015 through December 31, 2015, and requires monthly payments of \$10,800. Effective January 1, 2016, rent on this lease is based on a month-to-month basis with monthly payments of \$10,800. The total lease amount for each of the fiscal years 2017 and 2016 was \$129,600.

The Organization leased part of their building to a related party (see Note 9). The lease agreement was on a month-to-month basis. The required monthly payment is \$3,525. Effective January 1, 2015, the lease agreement was renewed through December 31, 2015. As of October 31, 2015, the tenant terminated their lease. The total lease amount for fiscal years 2017 and 2016 was \$-0- and \$14,100, respectively.

**SUMMIT ACADEMY OIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 8 EMPLOYEE BENEFIT PLAN

The Organization has a 401(k) profit sharing plan to which it makes an annually determined discretionary contribution up to a maximum of 4% of employee compensation. All employees who meet certain minimum employment and age requirements are eligible to participate. The Organization's discretionary contribution to the plan was \$69,956 and \$63,594 for 2017 and 2016, respectively.

NOTE 9 RELATED PARTY

The president of the Organization is a member of the board of directors for another nonprofit organization, The Network for Better Futures (the Network). During 2017 and 2016, \$-0- and \$14,100, respectively, in rental payments were collected from the Network. Effective October 31, 2015, the Network moved office spaces and was no longer involved in related party transactions. The amounts are included in the financial statements as rental income.

NOTE 10 REGULATORY

Department of Education Requirements for Title IV Aid

As a condition of eligibility to participate in the various federal financial assistance programs, the Organization is required to maintain financial responsibility, as defined in 34 CRF, Part 668. In accordance with 34 CRF, Part 668, financial responsibility is defined as a composite score standard greater than or equal to 1.5. A composite score of 1.0 to less than 1.5 will be subject to additional monitoring. A composite score less than 1.0 will be required to submit financial guarantees.

As of June 30, 2017 and 2016, the Organization's composite score, as defined by the Department of Education financial condition test, was 2.55 and 1.85, respectively.

**SUMMIT ACADEMY OIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 10 REGULATORY (CONTINUED)

Below is the calculation of the Organization's composite score as of June 30:

2017			
Primary Reserve Ratio	<u>Expendable Net Assets</u>	<u>1,287,126</u>	0.19
	Total Expenses	6,893,121	
Equity Ratio	<u>Modified Net Assets (Total Net Assets)</u>	<u>5,983,117</u>	0.72
	Modified Assets (Total Assets)	8,285,675	
Net Income Ratio	<u>Change in Unrestricted Net Assets</u>	<u>2,849,864</u>	0.39
	Total Unrestricted Revenues	7,294,170	
Primary Reserve Strength Factor Score		10 x Primary Reserve Ratio	1.87
Equity Strength Factor Score		6 x Equity Ratio	3.00
Net Income Strength Factor Score		1 + (50 x Net Income Ratio)	3.00
Primary Reserve Weighted Score		40% x Primary Reserve Strength Factor Score	0.75
Equity Weighted Score		40% x Equity Strength Factor Score	1.20
Net Income Weighted Score		20% x Net Income Strength Factor Score	<u>0.60</u>
COMPOSITE SCORE			<u><u>2.55</u></u>
2016			
Primary Reserve Ratio	<u>Expendable Net Assets</u>	<u>2,397,516</u>	0.37
	Total Expenses	6,398,287	
Equity Ratio	<u>Modified Net Assets (Total Net Assets)</u>	<u>5,380,450</u>	0.71
	Modified Assets (Total Assets)	7,604,922	
Net Income Ratio	<u>Change in Unrestricted Net Assets</u>	<u>(800,045)</u>	(0.15)
	Total Unrestricted Revenues	5,312,578	
Primary Reserve Strength Factor Score		10 x Primary Reserve Ratio	3.00
Equity Strength Factor Score		6 x Equity Ratio	3.00
Net Income Strength Factor Score		1 + (50 x Net Income Ratio)	(2.76)
Primary Reserve Weighted Score		40% x Primary Reserve Strength Factor Score	1.20
Equity Weighted Score		40% x Equity Strength Factor Score	1.20
Net Income Weighted Score		20% x Net Income Strength Factor Score	<u>(0.55)</u>
COMPOSITE SCORE			<u><u>1.85</u></u>