



STATE OF INDIANA
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August 20, 2014

Charter School Board
Dr. Robert H. Faulkner Academy, Inc.
1111 W. 2nd Street
Marion, IN 46952

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period July 1, 2012 to June 30, 2013. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Dr. Robert H. Faulkner Academy, Inc., as of June 30, 2013, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Audit Report for Dr. Robert H. Faulkner Academy, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

DR. ROBERT H. FAULKNER ACADEMY, INC.

Financial Statements

June 30, 2013 and 2012

DR. ROBERT H. FAULKNER ACADEMY, INC.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Dr. Robert H. Faulkner Academy, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of **Dr. Robert H. Faulkner Academy, Inc.**, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities 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.

Auditor's 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 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 Dr. Robert H. Faulkner Academy, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Stacy M. H. / Hancock

Indianapolis, IN
December 3, 2013

DR. ROBERT H. FAULKNER ACADEMY, INC.

Statements of Financial Position

	June 30	
<u>Assets</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash	\$ 390,148	258,017
Accounts receivable:		
State tuition support	-	589,132
Grants	10,906	30,540
Prepaid expense	786	694
Total current assets	<u>401,840</u>	<u>878,383</u>
Property and equipment:		
Furniture and equipment	330,249	317,787
Leasehold improvements	3,750	-
Textbooks	114,473	108,086
Less: accumulated depreciation	<u>(394,625)</u>	<u>(326,740)</u>
Property and equipment, net	<u>53,847</u>	<u>99,133</u>
	<u>\$ 455,687</u>	<u>977,516</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 101,011	105,504
Refundable advances	-	200
Total current liabilities	<u>101,011</u>	<u>105,704</u>
Accrued interest on Common School Fund loan	-	73,906
Long-term debt	-	615,882
Total liabilities	<u>101,011</u>	<u>795,492</u>
Unrestricted net assets	<u>354,676</u>	<u>182,024</u>
	<u>\$ 455,687</u>	<u>977,516</u>

See accompanying notes to financial statements.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Statements of Activities

	Year Ended June 30	
	2013	2012
<u>Revenue, Gains and Support</u>		
State education support	\$ 1,232,350	1,178,317
Grant revenue	375,852	314,406
Student fees	24,367	27,564
Contributions	4,990	700
Other income	-	7,364
Total revenue, gains and support	<u>1,637,559</u>	<u>1,528,351</u>
<u>Expenses</u>		
Program services:		
Educational instruction	931,433	971,320
Education support	262,601	292,779
Administrative	368,981	387,057
Total expenses	<u>1,563,015</u>	<u>1,651,156</u>
Change in net assets before non-operating revenue	74,544	(122,805)
<u>Non-Operating Revenue</u>		
Gain due to changes in legislative funding	<u>98,108</u>	<u>-</u>
Change in net assets	172,652	(122,805)
Net assets, beginning of year	<u>182,024</u>	<u>304,829</u>
Net assets, end of year	<u>\$ 354,676</u>	<u>182,024</u>

See accompanying notes to financial statements.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Statements of Cash Flows

	Year Ended June 30	
	2013	2012
<u>Operating Activities</u>		
Change in net assets	\$ 172,652	(122,805)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Gain due to changes in legislative funding	(98,108)	-
Depreciation	67,884	103,775
Change in:		
Accounts receivable	(7,547)	(44,177)
Prepaid expense	(92)	2,420
Accounts payable and accrued expenses	20,142	3,263
Refundable advances	(200)	(16,170)
Net cash provided (used) by operating activities	<u>154,731</u>	<u>(73,694)</u>
<u>Investing Activities</u>		
Purchases of property and equipment	(22,600)	(41,920)
Net cash used by investing activities	<u>(22,600)</u>	<u>(41,920)</u>
Net increase (decrease) in cash	132,131	(115,614)
Cash, beginning of year	<u>258,017</u>	<u>373,631</u>
Cash, end of year	<u>\$ 390,148</u>	<u>258,017</u>
Supplementary information:		
Cash payments for interest expense	\$ -	-

See accompanying notes to financial statements.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

General

Dr. Robert H. Faulkner Academy, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24 and is sponsored by Ball State University. The School has contracted The Leona Group, LLC to provide management and administrative services.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Revenue Recognition

Revenues generally come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in equal monthly installments in January through December following the start of the academic school year. Revenue is recognized in the year in which educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Accounts Receivable

Accounts receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income

Dr. Robert H. Faulkner Academy, Inc. has received a determination from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization; however, the School would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2013 and 2012, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting standards require the School 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 School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2012, 2011, and 2010 are open to audit for both federal and state purposes.

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than \$1,000 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Furniture and equipment	3 to 4 years
Textbooks	4 years
Leasehold improvements.....	10 years

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through December 3, 2013 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.

(2) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will no longer be paid.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans.....	\$615,882
Repayment of accrued interest on Common School Fund loans.....	<u>98,541</u>
	714,423
Elimination of School funding	<u>(616,315)</u>
	<u>\$ 98,108</u>

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

(3) Accounting Correction

In 2013, it was determined that revenue for 2012 under a specific grant had not been recognized in relation to allowable grant costs. This error resulted in understatements of net assets as of June 30, 2012 and revenue for year ended June 30, 2012 by \$26,048. The correction in accounting has been reflected by restating the accompanying financial statements for the year ended June 30, 2012. This matter had no effect on the financial statements for the year ended June 30, 2013.

(4) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 represented amounts due relating to the following sources:

Tuition support	\$576,474
Special education grant	<u>12,658</u>
	<u>\$589,132</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students and other factors. The payment schedule is likewise determined by state law with tuition support payable in equal monthly installments in the calendar year following the start of the academic school year. Effective July 1, 2013, tuition support will be paid in monthly installments that coincide with the School's fiscal year (see Note 2).

(5) Long-Term Debt

Long-term debt at June 30, 2012 represented a loan from the Indiana Common School Fund. The loan required semi-annual payments of principal and interest over a period of 20 years, with interest at 4% per annum. In 2013 and 2012, the loan was under a moratorium on loan payments, but interest continued to accrue. In 2013, the outstanding balance of the loan and all accrued interest were repaid with funding appropriated from the State of Indiana general fund (see Note 2).

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

(6) Leases

The School leases its school facility as well as certain items of office equipment under operating leases for terms from four to five years. Expense under operating leases for the years ended June 30, 2013 and 2012 was \$98,922 and \$98,652, respectively. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows:

Year Ending June 30:

2014	\$104,922
2015	104,922
2016	102,000
2017	102,000
2018	102,000

(7) Retirement Plans

All School personnel are employees of The Leona Group, LLC, which provides management services to the School. School personnel are eligible to participate in The Leona Group, LLC Section 401(k) Plan. Under the plan, the School matches employee contributions dollar-for-dollar up to 6% of base income. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$6,035 and \$4,082 for the years ended June 30, 2013 and 2012, respectively.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

(8) Commitments

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Expense under this charter agreement was \$17,850 and \$34,224 for the years ended June 30, 2013 and 2012, respectively. The charter remains in effect until June 30, 2018, and is renewable thereafter by mutual consent.

The School has contracted with The Leona Group, LLC to provide on-going consulting services with regard to school administration and management, training, and grant writing. Under the terms of the agreement, the School has agreed to pay an amount equal to 2% of revenues, as defined, for these services. Such fees for the years ended June 30, 2013 and 2012 were \$24,103 and \$23,147, respectively. Additionally, the School has also contracted with The Leona Group, LLC to provide employee leasing services. Under the terms of the agreement, the School has agreed to pay an amount equal to 4% of revenues, as defined, for this service. Such fees for the years ended June 30, 2013 and 2021 were \$48,207 and \$45,563, respectively.

(9) Risks and Uncertainties

The School provides educational instruction services to families residing in Grant 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 School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2013 and 2012, substantially all of the accounts receivable balance was due from the State of Indiana. Cash deposits are maintained at STAR Financial Bank and frequently exceed the FDIC insurance limit.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

(10) 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 years ended June 30, 2013 and 2012:

	2013		
	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Admini- strative</u>
Salaries and wages.....	\$ 519,543	82,286	143,281
Employee benefits	156,136	26,321	44,450
Professional services	31,795	42,864	84,326
Staff development and recruitment.....	3,106	-	150
Equipment	10,426	-	-
Authorizer oversight fee.....	-	-	17,850
Administrative service fee.....	-	-	24,103
Food costs.....	-	75,470	-
Repairs and maintenance.....	-	24,198	-
Classroom, kitchen and office supplies.....	27,823	10,219	10,237
Occupancy	114,668	-	-
Depreciation	67,884	-	-
Interest	-	-	24,635
Insurance	-	-	13,857
Other	52	1,243	6,092
	<u>\$ 931,433</u>	<u>262,601</u>	<u>368,981</u>

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

(10) Functional Expense Reporting, Continued

	2012		
	<u>Educational</u> <u>Instruction</u>	<u>Education</u> <u>Support</u>	<u>Admini-</u> <u>strative</u>
Salaries and wages.....	\$ 504,043	81,857	151,492
Employee benefits	158,278	27,805	43,263
Professional services	56,110	54,324	76,602
Staff development and recruitment.....	12,872	-	-
Equipment	9,918	-	-
Authorizer oversight fee.....	-	-	34,224
Administrative service fee.....	-	-	23,147
Food costs.....	-	78,360	-
Repairs and maintenance.....	-	37,406	-
Classroom, kitchen and office supplies.....	8,986	11,280	10,015
Occupancy	117,229	-	-
Depreciation	103,775	-	-
Interest	-	-	24,635
Insurance	-	-	16,331
Other	<u>109</u>	<u>1,747</u>	<u>7,348</u>
	\$ <u>971,320</u>	<u>292,779</u>	<u>387,057</u>

DR. ROBERT H. FAULKNER ACADEMY, INC.

Other Reports

Year Ended June 30, 2013

The report presented herein was prepared in addition to another official report prepared for the school as listed below:

Supplemental Audit Report of Dr. Robert H. Faulkner Academy, 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*.