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STATE OF INDIANA

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STATE BOARD OF ACCOUNTS
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January 23, 2015

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, 2013 to June 30, 2014. 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, 2014, 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

Paul D. Joyce, CPA
State Examiner

DR. ROBERT H. FAULKNER ACADEMY, INC.

Financial Statements

June 30, 2014 and 2013

Fitzgerald Isaac LLC
Certified Public Accountants

DR. ROBERT H. FAULKNER ACADEMY, INC.

Table of Contents

Fitzgerald Isaac LLC
Certified Public Accountants

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, 2014 and 2013, 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.

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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, 2014 and 2013 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.

Fitzgerald Isaac LLC

Indianapolis, IN
December 26, 2014

DR. ROBERT H. FAULKNER ACADEMY, INC.

Statements of Financial Position

	June 30	
Assets	2014	2013
Current assets:		
Cash	$ 394,630	390,148
Grants receivable	20,926	10,906
Prepaid expense	13,332	786
Total current assets	428,888	401,840
Property and equipment:		
Furniture and equipment	364,857	330,249
Leasehold improvements	24,341	3,750
Textbooks	114,473	114,473
Less: accumulated depreciation	(440,409)	(394,625)
Property and equipment, net	63,262	53,847
	$ 492,150	455,687
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 102,348	101,011
Total current liabilities	102,348	101,011
Unrestricted net assets	389,802	354,676
	$ 492,150	455,687

See accompanying notes to financial statements.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Statements of Activities

	Year Ended June 30	
Revenue and Support	2014	2013
State education support	$ 1,257,580	1,232,350
Grant revenue	182,966	375,852
Student fees	21,199	24,367
Contributions	25,372	4,990
Total revenue and support	1,487,117	1,637,559
Expenses		
Program services	1,084,207	1,194,034
Management and General	367,784	368,981
Total expenses	1,451,991	1,563,015
Change in net assets before non-operating revenue	35,126	74,544
Non-Operating Revenue		
Gain due to changes in legislative funding	-	98,108
Change in net assets	35,126	172,652
Net assets, beginning of year	354,676	182,024
Net assets, end of year	$ 389,802	354,676

See accompanying notes to financial statements.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Statements of Cash Flows

	Year Ended June 30	
Operating Activities	2014	2013
Change in net assets	$ 35,126	172,652
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Gain due to changes in legislative funding	-	(98,108)
Depreciation	45,784	67,884
Change in:		
Grants receivable	(10,020)	(7,547)
Prepaid expense	(12,546)	(92)
Accounts payable and accrued expenses	1,337	20,142
Refundable advances	-	(200)
Net cash provided by operating activities	59,681	154,731
Investing Activities		
Purchases of property and equipment	(55,199)	(22,600)
Net cash used by investing activities	(55,199)	(22,600)
Net increase in cash	4,482	132,131
Cash, beginning of year	390,148	258,017
Cash, end of year	$ 394,630	390,148

See accompanying notes to financial statements.

(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 other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in monthly installments in July through June coinciding with 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.

Grants Receivable

Grants 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.

(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, 2014 and 2013, 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 2013, 2012, and 2011 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............................	5 years

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through December 26, 2014, 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, charter school funding is 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 was eliminated.

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 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	98,541
	714,423
Elimination of School funding	(616,315)
	$ 98,108

(3) 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, 2014 and 2013 was $105,328 and $98,922, 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:	
2015	$104,922
2016	102,000
2017	102,000
2018	102,000

(4) 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 compensation. Substantially all full-time employees are eligible to participate. Retirement plan expense was $7,115 and $6,035 for the years ended June 30, 2014 and 2013, respectively.

(5) 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 received. Expense under this charter agreement was $25,510 and $17,850 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013 were $25,152 and $24,103, 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, 2014 and 2013 were $50,303 and $48,207, respectively.

(6) 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, 2014 and 2013, substantially all of the receivable balance was due from the State of Indiana. Cash deposits are maintained at STAR Financial Bank and are insured up to the FDIC insurance limit.

(7) 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 between program and management services. Following is a summary of expenses comprising each program and/or service for the years ended June 30, 2014 and 2013:

	2014	
	Program Services	Management and General
Salaries and wages	$ 521,880	150,896
Employee benefits	157,161	46,183
Professional services	50,871	94,326
Staff development and recruitment	4,272	55
Equipment	21,933	-
Authorizer oversight fee	-	25,510
Administrative service fee	-	25,152
Food costs	76,348	-
Repairs and maintenance	58,449	-
Classroom, kitchen and office supplies	23,929	5,133
Occupancy	119,730	-
Depreciation	45,784	-
Insurance	-	14,940
Other	3,850	5,589
	$ 1,084,207	367,784

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

(7) Functional Expense Reporting, Continued

	2013	
	Program Services	Management and General
Salaries and wages	$ 601,829	143,281
Employee benefits	182,457	44,450
Professional services	74,659	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	38,042	10,237
Occupancy	114,668	-
Depreciation	67,884	-
Interest	-	24,635
Insurance	-	13,857
Other	1,295	6,092
	$ 1,194,034	368,981

DR. ROBERT H. FAULKNER ACADEMY, INC.

Other Reports

Year Ended June 30, 2014

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.*