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September 20, 2016

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

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan P.C., Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. 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, as of June 30, 2016, 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 the Dr. Robert H. Faulkner Academy, 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
Together with Independent Auditors' Report

For the Years Ended June 30, 2016 and 2015



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Independent Auditors' Report

The Board of Directors
Dr. Robert H. Faulkner Academy, Inc.
1111 West 2nd Street
Marion, IN 46952

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, 2016 and 2015, and the related statements of activities and change in net assets, 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.

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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, 2016 and 2015 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.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent initial "D".

September 6, 2016
Indianapolis, Indiana

DR. ROBERT H. FAULKNER ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 361,427	\$ 349,870
Grants receivable	16,178	20,602
Prepaid expenses	9,292	9,898
	<hr/>	<hr/>
<i>Total current assets</i>	386,897	380,370
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT		
Furniture and equipment	369,589	364,857
Textbooks	194,752	114,473
Leasehold improvements	24,341	24,341
Less: accumulated depreciation	(489,281)	(468,486)
	<hr/>	<hr/>
<i>Property and equipment, net</i>	99,401	35,185
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 486,298</u>	<u>\$ 415,555</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 154,309	\$ 50,854
Refundable advances	4,453	924
	<hr/>	<hr/>
<i>Total current liabilities</i>	158,762	51,778
	<hr/>	<hr/>
UNRESTRICTED NET ASSETS	327,536	363,777
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 486,298</u>	<u>\$ 415,555</u>

See independent auditors' report and accompanying notes to the financial statements

DR. ROBERT H. FAULKNER ACADEMY, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
REVENUE AND SUPPORT		
State education support	\$ 824,660	\$ 985,114
Grant revenue	247,825	189,559
Student fees	10,829	13,756
Other income	696	-
	<u>1,084,010</u>	<u>1,188,429</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	838,116	893,671
Management and general	282,135	344,534
	<u>1,120,251</u>	<u>1,238,205</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	(36,241)	(49,776)
NET ASSETS, BEGINNING OF YEAR	<u>363,777</u>	<u>413,553</u>
NET ASSETS, END OF YEAR	<u><u>\$ 327,536</u></u>	<u><u>\$ 363,777</u></u>

See independent auditors' report and accompanying notes to the financial statements

DR. ROBERT H. FAULKNER ACADEMY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>			<u>2015</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 422,679	\$ 138,729	\$ 561,408	\$ 452,363	\$ 148,656	\$ 601,019
Employee benefits	119,549	25,978	145,527	127,892	38,624	166,516
Staff development	11,221	-	11,221	4,381	50	4,431
Professional services	25,283	61,698	86,981	39,319	91,475	130,794
Repairs and maintenance	17,307	-	17,307	13,817	-	13,817
Authorizer oversight fee	-	18,965	18,965	-	19,732	19,732
Administrative service fee	-	16,493	16,493	-	19,702	19,702
Food costs	67,300	-	67,300	64,379	-	64,379
Equipment	10,792	-	10,792	12,454	-	12,454
Classroom, kitchen and office supplies	11,748	10,101	21,849	13,281	6,082	19,363
Occupancy	122,239	-	122,239	124,950	-	124,950
Depreciation	26,652	-	26,652	28,077	-	28,077
Insurance	-	137	137	-	15,486	15,486
Other	3,346	10,034	13,380	12,758	4,727	17,485
<i>Total functional expenses</i>	<u>\$ 838,116</u>	<u>\$ 282,135</u>	<u>\$ 1,120,251</u>	<u>\$ 893,671</u>	<u>\$ 344,534</u>	<u>\$ 1,238,205</u>

See independent auditors' report and accompanying notes to the financial statements

DR. ROBERT H. FAULKNER ACADEMY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (36,241)	\$ (49,776)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	26,652	28,077
Loss on disposal of fixed assets	531	-
Changes in certain assets and liabilities:		
Grants receivable	4,424	24,075
Prepaid expenses	606	3,434
Accounts payable and accrued expenses	45,678	(51,494)
Refundable advances	<u>3,529</u>	<u>924</u>
<i>Net cash provided by (used in) operating activities</i>	45,179	(44,760)
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(33,622)</u>	<u>-</u>
CHANGE IN CASH	11,557	(44,760)
CASH, BEGINNING OF YEAR	<u>349,870</u>	<u>394,630</u>
CASH, END OF YEAR	<u>\$ 361,427</u>	<u>\$ 349,870</u>
SUPPLEMENTAL INFORMATION		
Purchases of property and equipment financed through accounts payable	<u>\$ 57,777</u>	<u>\$ -</u>

See independent auditors' report and accompanying notes to the financial statements

DR. ROBERT H. FAULKNER ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 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.

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, 2016 and 2015, 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. Tax years ending after 2012 are open to audit for both federal and state purposes.

DR. ROBERT H. FAULKNER ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment – Purchases of 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

Subsequent Events – The School evaluated subsequent events through September 6, 2016, 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.

Reclassifications – Certain figures for 2015 that were previously reported have been reclassified for comparative purposes.

NOTE 2 – 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, 2016 and 2015 was \$107,216 and \$105,873, respectively. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows for the years ending June 30:

2017	\$ 106,794
2018	106,794
2019	3,596

NOTE 3 – 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 \$6,727 and \$7,021 for the years ended June 30, 2016 and 2015, respectively.

DR. ROBERT H. FAULKNER ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2016 and 2015

NOTE 4 – 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 \$18,965 and \$19,732 for the years ended June 30, 2016 and 2015, 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 state education support revenue, as defined, for these services. Such fees for the years ended June 30, 2016 and 2015 were \$16,493 and \$19,702, 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 state education support revenues, as defined, for this service. Such fees for the years ended June 30, 2016 and 2015 were \$32,986 and \$39,405, respectively.

NOTE 5 – 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, 2016 and 2015, 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.

NOTE 6 – FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated between program and management services.

DR. ROBERT H. FAULKNER ACADEMY, INC.
OTHER REPORT
For the Year Ended June 30, 2016

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*.