



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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October 15, 2015

Charter School Board  
Flanner House Elementary School, Inc.  
2424 Dr. Martin Luther King Jr. Street  
Indianapolis, IN 46208

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. Fitzgerald/Isaac, LLC issued a disclaimer of opinion because they were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements presented.

In addition to the report presented herein, a Supplemental Audit Report for Flanner House Elementary School, 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

**FLANNER HOUSE ELEMENTARY SCHOOL, INC.**

*Financial Statements*

*June 30, 2014*

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11
Other Reports	12

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Flanner House Elementary School, Inc.

### **Report on the Financial Statements**

We were engaged to audit the accompanying financial statements of **Flanner House Elementary School, Inc.**, which comprise the statement of financial position as of June 30, 2014, the related statements of activities 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 conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis for Disclaimer of Opinion**

In August 2014, the Board of Directors elected to relinquish the organization's charter and cease operations as a charter school. As a result of the business termination, we encountered difficulty in obtaining certain necessary information to perform the audit. Among the items that we were unable to obtain were employment contracts and time records, cash receipt records, student income eligibility determination forms, lease agreements, loan agreements, and minutes of meetings of the board of directors. As a result, we were unable to determine whether any adjustments would be necessary relating to these items or other items that may have come to our attention from our review of these documents. Furthermore, members of management were not available at the time of our audit to provide required representations regarding management's responsibility for preparation and fair presentation of the financial statements, and the design, implementation, and maintenance of internal control.

### **Disclaimer of Opinion**

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

### **Emphasis of Matter**

As described in Note 2, **Flanner House Elementary School, Inc.** ceased operations effective September 2014. The organization is in the process of liquidation; however, the accompanying financial statements have not been adjusted to reflect the liquidation basis of accounting. There is no assurance that the organization will be able to meet its financial obligations.

A handwritten signature in black ink, appearing to read "Raymond / Isaac LLC".

Indianapolis, IN  
June 10, 2015

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

Statement of Financial Position

<u>Assets</u>	<u>June 30, 2014</u>
Current assets:	
Cash	\$ 44,621
Grants receivable	12,979
Prepaid expenses	1,477
Total current assets	<u>59,077</u>
Property and equipment:	
Furniture and equipment	112,867
Computers and software	140,410
Leasehold improvements	240,795
Textbooks	301,315
Less: accumulated depreciation	(558,789)
Property and equipment, net	<u>236,598</u>
	<u>\$ 295,675</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 84,335
Note payable	26,514
Total current liabilities	<u>110,849</u>
Unrestricted net assets	<u>184,826</u>
	<u>\$ 295,675</u>

See accompanying notes to financial statements.

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

Statement of Activities

	Year Ended June 30, 2014
<u>Revenue and Support</u>	
State education support	\$ 1,358,718
Grant revenue	420,442
Student fees	2,278
Contributions	1,510
Other revenue	1,226
Total revenue and support	<u>1,784,174</u>
<u>Expenses</u>	
Program services	1,770,113
Management and general	275,946
Total expenses	<u>2,046,059</u>
Change in net assets	(261,885)
Net assets, beginning of year	<u>446,711</u>
Net assets, end of year	<u><u>\$ 184,826</u></u>

See accompanying notes to financial statements.

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

Statement of Cash Flows

	Year Ended June 30, 2014
<u>Operating Activities</u>	
Change in net assets	\$ (261,885)
Adjustments to reconcile change in net assets to cash flows from operating activities:	
Depreciation	59,636
Change in:	
Grants receivable	23,965
Prepaid expenses	14,153
Accounts payable and accrued expenses	35,777
Net cash used by operating activities	<u>(128,354)</u>
<u>Investing Activities</u>	
Purchases of property and equipment	(29,295)
Net cash used by investing activities	<u>(29,295)</u>
<u>Financing Activities</u>	
Repayments on note payable, net of proceeds	(10,198)
Net cash used by financing activities	<u>(10,198)</u>
Net decrease in cash	(167,847)
Cash, beginning of year	<u>212,468</u>
Cash, end of year	<u>\$ 44,621</u>
Supplemental disclosures:	
Cash paid for interest expense	\$ 1,300

See accompanying notes to financial statements.

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

General

Flanner House Elementary School, 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 the Mayor's Office of the City of Indianapolis.

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 primarily 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.

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

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 and minor replacement costs 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 years
Computers and software.....	3 years
Leasehold improvements.....	40 years
Textbooks .....	3 years

Taxes on Income

Flanner House Elementary School, 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 year ended June 30, 2014, 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 after 2011 are open to audit for both federal and state purposes.

Subsequent Events

The School evaluated subsequent events through June 10, 2015, 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.

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

Notes to Financial Statements

(2) Liquidation

In August 2014, amid allegations of academic impropriety, the Board of Directors resolved to relinquish its charter and cease operations as a charter school effective September 2014. At that time, the School undertook a process of liquidation. The process of liquidation is on-going, and there is no assurance that all financial obligations will be met. The accompanying financial statements are presented as if the organization were a going concern. No adjustments have been made to restate the assets and liabilities at liquidation value.

(3) Accounting Correction

In 2014, it was determined that depreciation expense was not being recorded for certain categories of property and equipment, resulting in the understatement of depreciation expense and accumulated depreciation. This error has been corrected by restating previously issued financial statements. Net assets as of July 1, 2013 have been reduced by \$80,293 to reflect the correction of this error.

(4) Leases

The School leases its school facility from Flanner House of Indianapolis, Inc., an unrelated entity. The current extension of the lease requires monthly payments of \$6,934 through June 2016. The School also has a lease for nine modular classrooms. This lease, which expired July 2014, required monthly payments of \$9,922. The School also leases a copier that requires monthly payments of \$509 through February 2016. Each of these leases are accounted for as operating leases.

Rent expense for the years ended June 30, 2014 and 2013 under operating leases was \$232,704 and 208,374, respectively. The future minimum rental payments required under the operating leases for years subsequent to June 30, 2014 are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 220,431
2016	106,004

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

Notes to Financial Statements

(5) Retirement Plan

Retirement benefits for school employees are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. For the years ended June 30, 2014 and 2013, the School contributed 7.5% of compensation for teaching staff to TRF. The contribution to PERF for other employees was 7.5% of compensation until December 31, 2013, and 9.0% thereafter. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$138,823 for the year ended June 30, 2014.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to INPRS, One North Capitol, Suite 001, Indianapolis, Indiana 46204.

(6) Risks and Uncertainties

The School provides education services to families residing in Marion 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, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits are maintained at PNC Bank and are insured up to the FDIC insurance limit.

FLANNER HOUSE ELEMENTARY SCHOOL, INC.

Notes to Financial Statements

(7) 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 programs and management services. Following is a summary of expenses comprising each program and service for the year ended June 30, 2014:

	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$ 906,432	125,666
Employee benefits .....	285,112	30,646
Depreciation .....	59,636	-
Equipment and supplies.....	26,335	19,274
Food service expense.....	94,355	-
Insurance .....	-	31,941
Interest .....	-	1,300
Occupancy .....	242,947	-
Professional fees.....	146,557	61,954
Repairs and maintenance.....	4,428	-
Student transportation.....	3,929	-
Other .....	<u>382</u>	<u>5,165</u>
	<u>\$1,770,113</u>	<u>275,946</u>

FLANNER HOUSE ELEMENTARY SCHOOL, 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 Flanner House Elementary School, 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*.