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March 17, 2016

Charter School Board  
Dr. Robert H. Faulkner Academy, Inc.  
1111 W. 2<sup>nd</sup> 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, 2014 to June 30, 2015. 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, 2015, 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, 2015 and 2014*



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, 2015 and 2014, 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, 2015 and 2014 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.

**Emphasis of Matter**

As discussed in Note 4 to the financial statements, the 2014 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

*Donovan P.C.*

Indianapolis, IN  
January 7, 2016

DR. ROBERT H. FAULKNER ACADEMY, INC.

Statements of Financial Position

<u>Assets</u>	June 30	
	2015	2014 (Restated)
Current assets:		
Cash	\$ 349,870	394,630
Grants receivable	20,602	44,677
Prepaid expense	9,898	13,332
Total current assets	380,370	452,639
Property and equipment:		
Furniture and equipment	364,857	364,857
Leasehold improvements	24,341	24,341
Textbooks	114,473	114,473
Less: accumulated depreciation	(468,486)	(440,409)
Property and equipment, net	35,185	63,262
	\$ 415,555	515,901
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 50,854	102,348
Deferred revenue	924	-
Total current liabilities	51,778	102,348
Unrestricted net assets	363,777	413,553
	\$ 415,555	515,901

See accompanying notes to financial statements.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Statements of Activities

	Year Ended June 30	
	2015	2014
Revenue and Support		(Restated)
State education support	\$ 985,114	1,257,580
Grant revenue	189,559	206,717
Student fees	13,756	21,199
Contributions	-	25,372
Total revenue and support	1,188,429	1,510,868
Expenses		
Program services	893,671	1,084,207
Management and general	344,534	367,784
Total expenses	1,238,205	1,451,991
Change in net assets	(49,776)	58,877
Net assets, beginning of year	413,553	354,676
Net assets, end of year	\$ 363,777	413,553

See accompanying notes to financial statements.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Statements of Cash Flows

	Year Ended June 30	
	2015	2014 (Restated)
<u>Operating Activities</u>		
Change in net assets	\$ (49,776)	58,877
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	28,077	45,784
Change in:		
Grants receivable	24,075	(33,771)
Prepaid expense	3,434	(12,546)
Accounts payable and accrued expenses	(51,494)	1,337
Deferred revenue	924	-
Net cash provided (used) by operating activities	<u>(44,760)</u>	<u>59,681</u>
<u>Investing Activities</u>		
Purchases of property and equipment	-	(55,199)
Net cash used by investing activities	<u>-</u>	<u>(55,199)</u>
Net increase (decrease) in cash	(44,760)	4,482
Cash, beginning of year	<u>394,630</u>	<u>390,148</u>
Cash, end of year	<u>\$ 349,870</u>	<u>394,630</u>

See accompanying notes to financial statements.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

June 30, 2015 and 2014

(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.

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, 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. Tax years ending after 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

Subsequent Events

The School evaluated subsequent events through January 7, 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.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

(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, 2015 and 2014 was \$105,873 and \$105,328, respectively. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows:

<u>Year Ending June 30:</u>	
2016 .....	\$106,794
2017 .....	106,794
2018 .....	106,794
2019 .....	3,596

(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 \$7,115 and \$6,035 for the years ended June 30, 2015 and 2014, respectively.

(4) Accounting Correction

In 2015, the School discovered that expenses incurred in the 2014 fiscal year relating to certain cost-reimbursed grant programs were misclassified, resulting in an understatement of grant revenue in that fiscal year. The School has corrected this error by restating previously issued financial statements. The effect of this correction has been to increase grants receivable, grant revenue, and the change in net assets for the year ended June 30, 2014 by \$23,750.

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

(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 \$19,732 and \$25,510 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014 were \$19,702 and \$25,152, 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, 2015 and 2014 were \$39,405 and \$50,303, 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, 2015 and 2014, 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.

DR. ROBERT H. FAULKNER ACADEMY, 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 program and management services. Following is a summary of expenses comprising each program and/or service for the years ended June 30, 2015 and 2014:

	<u>2015</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$ 413,994	148,656
Employee benefits .....	127,892	38,624
Professional services .....	39,319	91,475
Staff development and recruitment .....	4,381	50
Equipment .....	12,454	-
Authorizer oversight fee.....	-	19,732
Administrative service fee.....	-	19,702
Food costs.....	64,379	-
Repairs and maintenance.....	52,186	-
Classroom, kitchen and office supplies ...	13,281	6,082
Occupancy .....	124,950	-
Depreciation .....	28,077	-
Insurance .....	-	15,486
Other .....	<u>12,758</u>	<u>4,727</u>
	\$ <u>893,671</u>	<u>344,534</u>

DR. ROBERT H. FAULKNER ACADEMY, INC.

Notes to Financial Statements

(7) Functional Expense Reporting, Continued

	<u>2014</u>	
	<u>Program Services</u>	<u>Management and General</u>
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 .....	<u>3,850</u>	<u>5,589</u>
	<u>\$ 1,084,207</u>	<u>367,784</u>

DR. ROBERT H. FAULKNER ACADEMY, INC.

Other Reports

Year Ended June 30, 2015

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*.