



STATE OF INDIANA
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November 16, 2017

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

We have reviewed the report prepared by Dr. Robert H. Faulkner Academy, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Dr. Robert H. Faulkner Academy, Inc. as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.


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, 2017 and 2016



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Donovan CPAs

Independent Auditors' 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, 2017 and 2016, 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 auditors consider 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, 2017 and 2016 and the changes in its net assets, its functional expenses, 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 dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent "D" at the beginning.

November 9, 2017
Indianapolis, Indiana

DR. ROBERT H. FAULKNER ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 293,874	\$ 361,427
Grants receivable	9,966	16,178
Prepaid expenses	<u>9,239</u>	<u>9,292</u>
<i>Total current assets</i>	<u>313,079</u>	<u>386,897</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	369,589	369,589
Textbooks	194,752	194,752
Leasehold improvements	24,341	24,341
Less: accumulated depreciation	<u>(528,564)</u>	<u>(489,281)</u>
<i>Property and equipment, net</i>	<u>60,118</u>	<u>99,401</u>
TOTAL ASSETS	<u><u>\$ 373,197</u></u>	<u><u>\$ 486,298</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 116,012	\$ 154,309
Refundable advances	<u>-</u>	<u>4,453</u>
<i>Total current liabilities</i>	116,012	158,762
UNRESTRICTED NET ASSETS	<u>257,185</u>	<u>327,536</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 373,197</u></u>	<u><u>\$ 486,298</u></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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State education support	\$ 783,505	\$ 824,660
Grant revenue	243,369	247,825
Student fees	8,551	10,829
Contributions	2,900	-
Other income	181	696
	<u>1,038,506</u>	<u>1,084,010</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	830,633	838,116
Management and general	278,224	282,135
	<u>1,108,857</u>	<u>1,120,251</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	(70,351)	(36,241)
NET ASSETS, BEGINNING OF YEAR	<u>327,536</u>	<u>363,777</u>
NET ASSETS, END OF YEAR	<u><u>\$ 257,185</u></u>	<u><u>\$ 327,536</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, 2017 and 2016

	<u>2017</u>			<u>2016</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	\$ 394,435	\$ 140,984	\$ 535,419	\$ 422,679	\$ 138,729	\$ 561,408
Employee benefits	109,932	26,266	136,198	119,549	25,978	145,527
Staff development	8,777	-	8,777	11,221	-	11,221
Professional services	27,923	63,755	91,678	25,283	61,698	86,981
Repairs and maintenance	11,238	-	11,238	17,307	-	17,307
Authorizer oversight fee	-	17,706	17,706	-	18,965	18,965
Administrative service fee	-	15,670	15,670	-	16,493	16,493
Food costs	67,258	-	67,258	67,300	-	67,300
Equipment	31,385	-	31,385	13,608	-	13,608
Classroom, kitchen and office supplies	14,093	7,640	21,733	11,748	10,101	21,849
Occupancy	126,309	-	126,309	122,239	-	122,239
Depreciation	39,283	-	39,283	26,652	-	26,652
Insurance	-	-	-	-	137	137
Other	-	6,203	6,203	530	10,034	10,564
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Total functional expenses</i>	<u>\$ 830,633</u>	<u>\$ 278,224</u>	<u>\$ 1,108,857</u>	<u>\$ 838,116</u>	<u>\$ 282,135</u>	<u>\$ 1,120,251</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (70,351)	\$ (36,241)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	39,283	26,652
Loss on disposal of property and equipment	-	531
Changes in certain assets and liabilities:		
Grants receivable	6,212	4,424
Prepaid expenses	53	606
Accounts payable and accrued expenses	(38,297)	45,678
Refundable advances	(4,453)	3,529
	(67,553)	45,179
<i>Net cash provided by (used in) operating activities</i>		
INVESTING ACTIVITIES		
Purchases of property and equipment	-	(33,622)
CHANGE IN CASH	(67,553)	11,557
CASH, BEGINNING OF YEAR	361,427	349,870
CASH, END OF YEAR	\$ 293,874	\$ 361,427
SUPPLEMENTAL INFORMATION		
Purchases of property and equipment financed through accounts payable	\$ -	\$ 57,777

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, 2017 and 2016

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. Internal Revenue Service 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, 2017 and 2016, 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 2013 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, 2017 and 2016

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 November 9, 2017, 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.

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, 2017 and 2016 was \$107,307 and \$107,216, 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:

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 \$7,095 and \$6,727 for the years ended June 30, 2017 and 2016, respectively.

DR. ROBERT H. FAULKNER ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

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 \$17,706 and \$18,965 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 were \$15,670 and \$16,493, 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, 2017 and 2016 were \$31,340 and \$32,986, 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, 2017 and 2016, 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, 2017

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*.