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November 13, 2018

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, 2017 to June 30, 2018. 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, 2018 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the Emphasis of Matter Regarding Going Concern paragraph included in the Independent Auditors' Report and further detailed in Note 2.

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.

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, CPA  
State Examiner

**DR. ROBERT H. FAULKNER ACADEMY, INC.**

FINANCIAL STATEMENTS  
Together with Independent Auditors' Report

For the Years Ended June 30, 2018 and 2017



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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, 2018 and 2017, 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.

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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, 2018 and 2017 and the change in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming the School will continue as a going concern. As discussed in Note 2 to the financial statements, the School has experienced a significant decline in enrollment revenue during the year ended June 30, 2018, while expenses remained relatively consistent. This resulted in a negative change in net assets of approximately \$227,000 which reduced net assets from approximately \$257,000 as of June 30, 2017 to \$30,000 as of June 30, 2018. Additionally, the School incurred negative cash flows from operations during the year ended June 30, 2018 of approximately \$245,000, and has negative working capital as of June 30, 2018. These factors combined raise substantial doubt about the School's ability to continue as a going concern. Management's intentions with respect to this matter are also described in Note 2. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

DONOVAN

A handwritten signature in blue ink that reads "DONOVAN". The signature is written in a cursive style with a large, stylized 'D'.

October 4, 2018  
Indianapolis, Indiana

**DR. ROBERT H. FAULKNER ACADEMY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 48,514	\$ 293,874
Grants receivable	23,599	9,966
Prepaid expenses	<u>9,839</u>	<u>9,239</u>
<i>Total current assets</i>	<u>81,952</u>	<u>313,079</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	369,589	369,589
Textbooks	194,752	194,752
Leasehold improvements	24,341	24,341
Less: accumulated depreciation	<u>(552,799)</u>	<u>(528,564)</u>
<i>Property and equipment, net</i>	<u>35,883</u>	<u>60,118</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 117,835</u></u>	<u><u>\$ 373,197</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	<u>\$ 87,518</u>	<u>\$ 116,012</u>
<b>NET ASSETS - UNRESTRICTED</b>		
Undesignated	(5,566)	197,067
Invested in property and equipment	<u>35,883</u>	<u>60,118</u>
<i>Total net assets</i>	<u>30,317</u>	<u>257,185</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 117,835</u></u>	<u><u>\$ 373,197</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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 598,995	\$ 783,505
Grant revenue	240,559	243,369
Student fees	8,117	8,551
Contributions	54	2,900
Other income	616	181
	<hr/>	<hr/>
<i>Total revenue and support</i>	848,341	1,038,506
	<hr/>	<hr/>
<b>EXPENSES</b>		
Program services	804,418	830,633
Management and general	270,791	278,224
	<hr/>	<hr/>
<i>Total expenses</i>	1,075,209	1,108,857
	<hr/>	<hr/>
<b>CHANGE IN NET ASSETS</b>	(226,868)	(70,351)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<hr/> 257,185	<hr/> 327,536
<b>NET ASSETS, END OF YEAR</b>	<hr/> <u>\$ 30,317</u>	<hr/> <u>\$ 257,185</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, 2018 and 2017**

	<u>2018</u>			<u>2017</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>
<b>FUNCTIONAL EXPENSES</b>						
Salaries and wages	\$ 369,547	\$ 127,709	\$ 497,256	\$ 394,435	\$ 140,984	\$ 535,419
Employee benefits	100,719	26,492	127,211	109,932	26,266	136,198
Occupancy	125,583	-	125,583	126,309	-	126,309
Professional services	49,433	61,815	111,248	27,923	63,755	91,678
Technology	57,692	11,300	68,992	31,385	-	31,385
Food costs	51,345	-	51,345	67,258	-	67,258
Depreciation	24,235	-	24,235	39,283	-	39,283
Classroom, kitchen, and office supplies	7,808	5,658	13,466	14,093	7,640	21,733
Authorizer oversight fee	-	13,446	13,446	-	17,706	17,706
Administrative service fee	-	11,980	11,980	-	15,670	15,670
Other	-	9,561	9,561	-	6,203	6,203
Staff development	9,046	-	9,046	8,777	-	8,777
Repairs and maintenance	9,010	-	9,010	11,238	-	11,238
Insurance	-	2,830	2,830	-	-	-
<i>Total functional expenses</i>	<u>\$ 804,418</u>	<u>\$ 270,791</u>	<u>\$ 1,075,209</u>	<u>\$ 830,633</u>	<u>\$ 278,224</u>	<u>\$ 1,108,857</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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (226,868)	\$ (70,351)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	24,235	39,283
Changes in certain assets and liabilities:		
Grants receivable	(13,633)	6,212
Prepaid expenses	(600)	53
Accounts payable and accrued expenses	(28,494)	(38,297)
Refundable advances	-	(4,453)
	(245,360)	(67,553)
<b>CHANGE IN CASH</b>	(245,360)	(67,553)
<b>CASH, BEGINNING OF YEAR</b>	293,874	361,427
<b>CASH, END OF YEAR</b>	\$ 48,514	\$ 293,874

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, 2018 and 2017

### 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. During the year ended June 30, 2018, the School served 85 students in grades kindergarten through sixth.

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 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, 2018 and 2017, 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 2014 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, 2018 and 2017**

**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 October 4, 2018, 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 - GOING CONCERN**

The School experienced a decrease in its student population during the year ended June 30, 2018, which was the primary cause of an overall decrease in revenue of approximately \$187,000 compared to the year ended June 30, 2017. Despite the significant decrease in revenue, expenses decreased only approximately \$34,000 compared to the year ended June 30, 2017. These factors combined to cause a negative change in net assets and a decrease in cash of approximately \$227,000 and \$245,000, respectively. These factors raise substantial doubt about the School's ability to continue as a going concern.

The School's management has started addressing these concerns by conducting a thorough review of its enrollment process. During the subsequent year, the School has realized a slight increase in student enrollment compared to the year ended June 30, 2018. In addition to improving the School's enrollment, management has focused its efforts on identify and securing additional grant opportunities.

The School anticipates continuing as a going concern for the foreseeable future.

**DR. ROBERT H. FAULKNER ACADEMY, INC.**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2018 and 2017**

**NOTE 3 - LEASES**

The School entered into leases for its school facility as well as certain items of office equipment under operating leases for terms from four to five years. The lease has been extended to August 2023. Expense under operating leases was \$107,852 and \$107,307 for the years ended June 30, 2018 and 2017, 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:

2019	\$ 105,596
2020	102,000
2021	102,000
2022	102,000
2023	17,000

**NOTE 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 \$7,785 and \$7,095 for the years ended June 30, 2018 and 2017, respectively.

**NOTE 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 \$13,446 and \$17,706 for the years ended June 30, 2018 and 2017, respectively. The charter remains in effect until June 30, 2023 and is renewable thereafter by mutual consent.

The School has contracted with The Leona Group, LLC to provide ongoing 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 were \$11,980 and \$15,670 for the years ended June 30, 2018 and 2017, 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 were \$23,960 and \$31,340 for the years ended June 30, 2018 and 2017, respectively.

**DR. ROBERT H. FAULKNER ACADEMY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2018 and 2017**

**NOTE 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, 2018 and 2017, 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 7 - FUNCTIONAL EXPENSE REPORTING**

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

**DR. ROBERT H. FAULKNER ACADEMY, INC.**

**OTHER REPORT**

**For the Year Ended June 30, 2018**

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*.