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October 16, 2019


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, 2018 to June 30, 2019. 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, 2019 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 School Closure paragraph included in the Independent Auditors' Report and further detailed in Note 2.

In our opinion, Donovan CPAs prepared the audit report in accordance with guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' 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, 2019 and 2018



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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, 2019 and 2018, 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, 2019 and 2018 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 School Closure

As discussed in Note 2, the School's Board of Directors voted to cease operations of the School effective August 1, 2019. The accompanying financial statements do not include any adjustments related to the closing of the School.

DONOVAN

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

September 12, 2019
Indianapolis, Indiana

DR. ROBERT H. FAULKNER ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 61,488	\$ 48,514
Grants receivable	7,909	23,599
Prepaid expenses	<u>747</u>	<u>9,839</u>
<i>Total current assets</i>	<u>70,144</u>	<u>81,952</u>
PROPERTY AND EQUIPMENT		
Furniture and equipment	369,589	369,589
Textbooks	191,612	194,752
Leasehold improvements	24,341	24,341
Less: accumulated depreciation	<u>(572,903)</u>	<u>(552,799)</u>
<i>Property and equipment, net</i>	<u>12,639</u>	<u>35,883</u>
TOTAL ASSETS	<u><u>\$ 82,783</u></u>	<u><u>\$ 117,835</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 66,577	\$ 87,518
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>16,206</u>	<u>30,317</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 82,783</u></u>	<u><u>\$ 117,835</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
REVENUE AND SUPPORT		
State education support	\$ 659,439	\$ 598,995
Grant revenue	189,500	240,559
Student fees	8,698	8,117
Contributions:		
In-kind rent	68,000	-
Other	11,750	54
Insurance reimbursement	49,880	-
Other income	2,027	616
	<u>989,294</u>	<u>848,341</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	700,482	804,418
Management and general	302,923	270,791
	<u>1,003,405</u>	<u>1,075,209</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS	(14,111)	(226,868)
NET ASSETS, BEGINNING OF YEAR	<u>30,317</u>	<u>257,185</u>
NET ASSETS, END OF YEAR	<u>\$ 16,206</u>	<u>\$ 30,317</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, 2019 and 2018

	<u>2019</u>			<u>2018</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>
Salaries and wages	\$ 337,482	\$ 146,476	\$ 483,958	\$ 369,547	\$ 127,709	\$ 497,256
Occupancy	126,735	-	126,735	125,583	-	125,583
Employee benefits	81,176	38,296	119,472	100,719	26,492	127,211
Professional services	40,185	70,025	110,210	49,433	61,815	111,248
Food costs	53,686	-	53,686	51,345	-	51,345
Technology	27,498	-	27,498	57,692	11,300	68,992
Depreciation	20,104	-	20,104	24,235	-	24,235
Authorizer oversight fee	-	14,932	14,932	-	13,446	13,446
Administrative service fee	-	13,189	13,189	-	11,980	11,980
Supplies	9,354	3,083	12,437	7,808	5,658	13,466
Insurance	-	9,930	9,930	-	2,830	2,830
Repairs and maintenance	3,481	-	3,481	9,010	-	9,010
Staff development	781	-	781	9,046	-	9,046
Other	-	6,992	6,992	-	9,561	9,561
<i>Total functional expenses</i>	<u>\$ 700,482</u>	<u>\$ 302,923</u>	<u>\$ 1,003,405</u>	<u>\$ 804,418</u>	<u>\$ 270,791</u>	<u>\$ 1,075,209</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (14,111)	\$ (226,868)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	20,104	24,235
Loss on disposal property and equipment	3,140	-
Changes in certain assets and liabilities:		
Grants receivable	15,690	(13,633)
Prepaid expenses	9,092	(600)
Accounts payable and accrued expenses	<u>(20,941)</u>	<u>(28,494)</u>
CHANGE IN CASH	12,974	(245,360)
CASH, BEGINNING OF YEAR	<u>48,514</u>	<u>293,874</u>
CASH, END OF YEAR	<u>\$ 61,488</u>	<u>\$ 48,514</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, 2019 and 2018

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, 2019, the School served approximately 90 students in grades kindergarten through sixth. Subsequent to year end, the School elected to cease school operations effective August 1, 2019 (see Note 2).

Financial Statement Presentation – Effective with the June 30, 2019 year end, the School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 must be applied on a retrospective basis, therefore the net assets as of and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14.

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, 2019 and 2018, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

DR. ROBERT H. FAULKNER ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 2015 are open to audit for both federal and state purposes.

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 12, 2019, 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. Refer to Note 2, Subsequent Event.

NOTE 2 - SUBSEQUENT EVENT

The School's Board of Directors voted in July 2019 to cease operations of the School effective August 1, 2019. The accompanying financial statements do not include any adjustments related to the closing of the School.

DR. ROBERT H. FAULKNER ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2019 and 2018

NOTE 3 - LEASES

The School entered into a lease for its school facility with monthly payments of \$8,500 through August 2023. The School received forgiveness of monthly lease payments from November 1, 2018 through August 1, 2019. The forgiven amount is recorded as in-kind donations in the amount of \$68,000 for the year ended June 30, 2019. Expense under operating leases was \$103,928 and \$107,852 for the years ended June 30, 2019 and 2018, respectively, including the in-kind portion.

The School is in discussions with the landlord, St. Paul Missionary Baptist Church, regarding terminating the lease. The accompanying financial statements do not reflect any lease buyout obligations, if any would exist.

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 \$7,211 and \$7,785 for the years ended June 30, 2019 and 2018, 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 \$14,932 and \$13,446 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2023 and is renewable thereafter by mutual consent. The charter will be terminated with the closing of the School.

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 \$13,189 and \$11,980 for the years ended June 30, 2019 and 2018, respectively. Additionally, the School has 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 \$26,378 and \$23,960 for the years ended June 30, 2019 and 2018, respectively.

DR. ROBERT H. FAULKNER ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2019 and 2018

NOTE 6 - RISKS AND UNCERTAINTIES

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. 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.

NOTE 7 - LIQUIDITY

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The School's financial assets include cash and grants receivable. Financial assets at June 30, 2019 total \$69,397, all of which are available to meet cash needs for general expenditures within a year.

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

NOTE 8 - 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. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.