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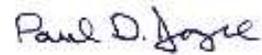
December 22, 2014

Charter School Board
Duneland Charter School, Inc. d/b/a
Discovery Charter School
800 Canonie Drive
Porter, IN 46304

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Wieland & Company, Inc., CPA, 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. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Duneland Charter School, Inc. d/b/a Discovery Charter School, as of June 30, 2014, 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 Duneland Charter School, Inc. d/b/a Discovery Charter School 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

DUNELAND CHARTER SCHOOL, INC.
d/b/a
DISCOVERY CHARTER SCHOOL

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2014

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Wieland & Company, Inc.

Certified Public Accountants

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Batavia, Illinois 60510

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Independent Auditor's Report

To the Board of Directors
Duneland Charter School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Duneland Charter School, Inc. d/b/a Discovery Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and 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 our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Duneland Charter School, Inc. d/b/a Discovery Charter School as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Independent Auditor's Report – Continued

Report on Summarized Comparative Information

We have previously audited Duneland Charter School, Inc. d/b/a Discovery Charter School's financial statements as of and for the year ended June 30, 2013, and our report dated December 19, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wieland & Company, Inc.

Batavia, Illinois
October 20, 2014

DUNELAND CHARTER SCHOOL, INC.
d/b/a
DISCOVERY CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS:</u>		
Cash	\$ 57,257	\$ 101,622
Unconditional Promise to Give	24,908	20,115
Prepaid Expenses	1,974	5,986
Security Deposit	43,620	43,620
Property and Equipment:		
Land	58,052	-
Textbooks	63,982	63,982
Leasehold Improvements	378,668	378,668
Furniture and Equipment	<u>658,254</u>	<u>644,975</u>
	1,158,956	1,087,625
Accumulated Depreciation	<u>(386,425)</u>	<u>(271,442)</u>
Net Property and Equipment	<u>772,531</u>	<u>816,183</u>
<u>TOTAL ASSETS</u>	<u>\$ 900,290</u>	<u>\$ 987,526</u>
 <u>LIABILITIES AND NET ASSETS:</u>		
Accounts Payable and Accrued Expenses	\$ 188,448	\$ 194,072
Debt Obligations	463,197	564,638
Capital Lease Obligation	<u>2,522</u>	<u>19,484</u>
<u>TOTAL LIABILITIES</u>	654,167	778,194
 <u>NET ASSETS</u>		
Unrestricted	<u>246,123</u>	<u>209,332</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 900,290</u>	<u>\$ 987,526</u>

See Accompanying Notes to Financial Statements.

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>SUPPORT AND REVENUES:</u>		
State Education Support	\$ 2,574,741	\$ 2,379,875
Grant Revenue	327,786	549,291
Student Fees	117,125	83,498
Contributions	58,692	3,264
Other	<u>24,028</u>	<u>6,590</u>
<u>TOTAL SUPPORT AND REVENUES</u>	3,102,372	3,022,518
<u>EXPENSES:</u>		
Program Services:		
Educational Instruction	1,870,719	1,901,850
Education Support	440,362	298,745
Administrative	<u>754,500</u>	<u>552,978</u>
<u>TOTAL EXPENSES</u>	<u>3,065,581</u>	<u>2,753,573</u>
<u>INCREASE IN NET ASSETS</u>	36,791	268,945
<u>NET ASSETS (DEFICIT) AT BEGINNING OF YEAR</u>	<u>209,332</u>	<u>(59,613)</u>
<u>NET ASSETS AT END OF YEAR</u> \$	<u><u>246,123</u></u>	<u><u>209,332</u></u>

See Accompanying Notes to Financial Statements.

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Increase in Net Assets	\$ 36,791	\$ 268,945
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided (Used) in Operating Activities:		
Depreciation	114,983	121,630
Decrease (Increase) in:		
Accounts Receivable	(24,908)	(207,288)
Prepaid Expenses	4,012	16,977
Unconditional Promises to Give	20,115	2,385
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	21,348	(279,084)
<u>NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES</u>	<u>172,341</u>	<u>(76,435)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Cash Payments on Construction Contract	-	(65,000)
Other Cash Payments for Property and Equipment	(71,331)	(70,349)
<u>NET CASH USED IN INVESTING ACTIVITIES</u>	<u>(71,331)</u>	<u>(135,349)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds from State of Indiana Loans	-	191,922
Principal Repayments on Long-term Debt	(128,413)	(59,356)
Principal Reduction of Capital Lease Obligation	(16,962)	(39,710)
<u>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</u>	<u>(145,375)</u>	<u>92,856</u>
	<u>NET DECREASE IN CASH</u>	<u>(118,928)</u>
<u>CASH AT BEGINNING OF YEAR</u>	<u>101,622</u>	<u>-</u>
	<u>CASH AT END OF YEAR</u> \$	<u>(118,928)</u> \$
<u>SUPPLEMENTAL DISCLOSURES:</u>		
Cash Paid for Interest Expense	\$ <u>10,069</u>	\$ <u>14,563</u>
<u>NON-CASH INVESTING AND FINANCING ACTIVITIES:</u>		
Costs Incurred Under Construction Contract	\$ -	\$ 324,518
Construction Contract Payable	-	(259,518)
Cash Payments on Construction Contract	\$ -	\$ 65,000
Indiana Common School Fund Debt Forgiveness		
Principal	\$ -	\$ 1,147,382
Accrued Interest	-	78,696
Total Amount Forgiven	\$ -	\$ 1,226,078
Deferral of Debt Obligation in Exchange for Service Agreement		
Debt Service Payments Reclassified to Trade Payables	\$ -	\$ 35,366

See Accompanying Notes to Financial Statements.

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE A - NATURE OF ACTIVITIES

Duneland Charter School, Inc. d/b/a Discovery Charter School (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 commenced operations with the 2010-2011 school year.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly reflect all significant receivables, payables and other liabilities.

Promises to Give and Revenue Recognition

Grants and gifts are recognized when a grantor makes a promise to give to the School that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets in the statement of activities. It is the School's policy to report contributions with temporary restrictions that are satisfied in the same fiscal year as receipt as unrestricted contributions in the statement of activities. At June 30, 2014 and 2013, there are no temporarily or permanently restricted net assets.

Conditional promises to give are recognized as support when the conditions on which they depend are substantially met. Support from grants and other agreements that in substance constitutes an exchange for services from the School is recognized when earned.

Accounts receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. Management provides for probable uncollectible promises using the allowance method. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Use of Estimates

The preparation of financial statements in conformity with auditing standards generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the School considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents. At June 30, 2014 and 2013, there were no cash equivalents.

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. The School reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Purchased property and equipment are recorded at acquisition cost. Depreciation is charged against income over the estimated useful lives of the related property using the straight-line method. The estimated useful lives generally are as follows:

Textbooks	5 years
Leasehold Improvements	39 years
Furniture and equipment	3 – 7 years

Depreciation expenses totaled \$114,983 and \$121,630 during the years ended June 30, 2014 and 2013, respectively.

Income Taxes

The School applied for and has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity and had no income unrelated to its tax-exempt purpose. Accordingly, income taxes are not provided for in the financial statements. The years ended June 30, 2011 through 2014 remain subject to examination by the taxing authorities.

The financial statement effects of a tax position taken or expected to be taken are recognized when it is more likely than not, based on technical merits, that the position will be sustained upon examination. As of June 30, 2014, the School had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

NOTE C – ACCOUNTS RECEIVABLE AND TUITION SUPPORT

Tuition support is determined by state law and is dependent upon the geographical location of the school and is indexed to the poverty data of the enrolled students. The payment schedule is likewise determined by state law. Effective with the year ended June 30, 2013, the State of Indiana changed its funding period from the calendar year following the start of the school year to the fiscal year ending June 30th (see Note G). Consequently all state education support due for the years ended June 30, 2014 and 2013 had been received by the respective year end dates.

NOTE D – PROMISES TO GIVE

Unconditional promises to give of \$24,908 and \$20,115 recorded at June 30, 2014 and 2013, respectively, represent grants awarded by the Indiana Department of Education.

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE E – CONSTRUCTION CONTRACT

During the year ended June 30, 2013, the School entered a contract for the construction of additional classrooms and related space in its leased facility at a total cost of \$324,518. Construction was completed in December 2012. The Organization made payments against the contract amount of \$105,000 and \$65,000 during the years ended June 30, 2014 and 2013, respectively. The payments during the year ended June 30, 2014 were partially funded with a \$60,000 loan from Charter Schools Development Corporation (CSDC) (see Note F). On April 1, 2014, the Organization executed an installment note payable to the contractor for the remaining balance due under the contract (see Note F).

NOTE F – DEBT OBLIGATIONS

Debt obligations consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
The School has an agreement with Food Service Professionals (“FSP”) to operate the student lunch program. As part of the agreement, the School acquired certain kitchen equipment from FSP in exchange for a non-interest bearing note payable. Repayment of the note was scheduled to be made on a monthly basis over a three-year period and all installments are presently due under the existing agreement.	\$ 187,973	\$ 165,892
Note payable to construction contractor dated April 1, 2014 in the original amount of \$154,518. The note is unsecured and due in monthly installments of \$4,701, including interest of 6% per annum, through February 28, 2017 (see Note E).	138,388	-
Contract payable to construction contractor, agreement provided for payments of \$5,000 per month until alternate financing procured (see Note E).	-	259,518
Loan payable to Charter Schools Development Corporation (CSDC). Repayment terms presently being negotiated (see Note E).	60,000	-
The note payable to IFF is a term loan with an original principal amount of \$300,000. The loan is payable in equal monthly installments of \$5,661, including interest at 5% per annum, through August 1, 2015.	<u>76,836</u>	<u>139,228</u>
	<u>\$ 463,197</u>	<u>\$ 564,638</u>

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE F – DEBT OBLIGATIONS - CONTINUED

Future maturities of debt obligations are as follows:

Year Ending June 30,	
2015	\$ 373,942
2016	52,481
2017	<u>36,774</u>
	<u>\$ 463,197</u>

NOTE G – INDIANA COMMON SCHOOL FUND DEBT FORGIVENESS

During the year ended June 30, 2013, in conjunction with the State of Indiana changing its funding period for education support from the calendar year following the start of the school year to the fiscal year ending June 30th, outstanding loans made to charter schools from the Indiana Common School Fund were forgiven. The total amount forgiven to the School was \$1,226,078 consisting of principal and accrued interest of \$1,147,382 and \$78,696, respectively. The amount was recorded as an offset of accounts receivable due for state education support accrued at the date of forgiveness.

NOTE H – LEASES AS LESSEE

Capital Leases

The School leases computer equipment under capital leases. At June 30, 2014, the cost and accumulated depreciation of the equipment relating to the leases were \$121,417 and \$87,452, respectively.

Future minimum lease payments under the capital leases are as follows at June 30, 2014:

Year ending June 30, 2015	\$ 2,548
Less interest	<u>(26)</u>
	<u>\$ 2,522</u>

Operating Leases

The School leases its permanent facility and a modular building. Total rent expense was \$248,742 and \$244,479 during the years ended June 30, 2014 and 2013, respectively. The permanent facility's agreement is a net operating lease expiring on June 30, 2015. The school entered into a new 2-year lease for its modular building subsequent to the year ended June 30, 2014. Installments of \$705 are due monthly. Future annual minimum lease payments under the agreements are as follows:

Year ending June 30,	
2015	\$ 252,538
2016	<u>8,460</u>
	<u>\$ 260,998</u>

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE I – MANAGEMENT AND OVERSIGHT FEES

Management

The School contracted with American Quality Schools, a not-for-profit organization incorporated in the State of Illinois, to provide management, administrative and educational programming services. Under the terms of the agreement, the School has agreed to pay an amount equal to 6% of revenues, as defined, for such services. The contract commenced December 1, 2008 and expires June 30, 2015. Fees incurred under the contract totaled \$205,979 and \$112,500 for the years ended June 30, 2014 and 2013, respectively.

Oversight

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under the charter, the School has agreed to pay Ball State University an annual administrative fee equal to 3% of state tuition support. The charter remains in effect until June 30, 2015, and is renewable thereafter by mutual consent. Fees incurred under this agreement were \$62,847 and \$61,416 for the years ended June 30, 2014 and 2013, respectively.

NOTE J – 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 defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public System Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 7.25% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expenses totaled \$115,832 and \$93,819 during the years ended June 30, 2014 and 2013, respectively.

The School also maintains a Section 403(b) retirement plan with American Quality Schools, Inc. Employees may contribute up to 100% of their compensation provided they are at least 18 years of age and have at least 30 days of employment. There is no provision for an employer match.

NOTE K – RELATED PARTY TRANSACTION

The Discovery Charter School Parent Advisory Council (PAC) made a cash donation to the School totaling \$58,052 to fund the purchase of vacant land for future building purposes. The closing for the land purchase occurred on June 30, 2014.

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE L – RISKS AND UNCERTAINTIES

The School provides education services to families residing in Porter 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.

Deposit accounts are maintained at Chase Bank which frequently exceed federally insured limits.

NOTE M – SUBSEQUENT EVENTS

Management has evaluated subsequent events to October 20, 2014, the date on which the financial statements were available to be issued.

ADDITIONAL INFORMATION

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

SCHEDULES OF FUNCTIONAL EXPENSES

Year Ended June 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

	Year Ended June 30, 2014				2013 Total
	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Administrative</u>	<u>Total</u>	
Classroom, Kitchen and Office Supplies	\$ 23,968	\$ 8,271	\$ 29,544	\$ 61,783	\$ 70,794
Depreciation	97,736	11,498	5,749	114,983	121,630
Employee Costs					
Salaries and Wages	1,162,947	72,125	240,100	1,475,172	1,283,187
Payroll Taxes and Benefits	288,888	26,250	63,801	378,939	321,078
Food Service	—	142,551	—	142,551	30,914
Insurance	—	—	27,095	27,095	26,030
Interest	—	—	10,069	10,069	57,009
Miscellaneous	—	2,763	6,843	9,606	7,313
Occupancy					
Rents	196,083	12,164	40,495	248,742	244,479
Repairs and Maintenance	55,916	3,468	11,548	70,932	144,525
Utilities	45,181	2,803	9,331	57,315	40,338
Professional Services	—	61,899	298,690	360,589	321,490
Rentals, Equipment	—	—	—	—	11,083
Staff Development and Recruitment	—	9,710	—	9,710	7,716
Telephone	—	—	11,235	11,235	17,843
Transportation Service	—	86,860	—	86,860	48,144
	<u>\$ 1,870,719</u>	<u>\$ 440,362</u>	<u>\$ 754,500</u>	<u>\$ 3,065,581</u>	<u>\$ 2,753,573</u>

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

OTHER REPORT

June 30, 2014

The reports presented herein were prepared in addition to another report prepared for the School as listed below:

Supplemental Audit Report of The Discovery Charter School