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STATE BOARD OF ACCOUNTS
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March 14, 2017

Charter School Board
Dugger Union Community School Corporation
7356 E Co RD 50 S
Dugger, IN 47848

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan PC, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. 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 Dugger Union Community School Corporation, as of June 30, 2016, 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 Dugger Union Community School Corporation 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

DUGGER UNION COMMUNITY SCHOOL CORPORATION

FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Year Ended June 30, 2016



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Independent Auditors' Report

The Board of Directors
Dugger Union Community School Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Dugger Union Community School Corporation, which comprise the statement of financial position as of June 30, 2016, the related statements of activities and change in net assets, functional expenses, 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.

Auditors' 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 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 Dugger Union Community School Corporation as of June 30, 2016, and the changes in its net assets, its functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

A handwritten signature in dark ink, appearing to read "DONOVAN", is written over a light green rectangular background.

Indianapolis, Indiana

December 21, 2016

DUGGER UNION COMMUNITY SCHOOL CORPORATION

STATEMENT OF FINANCIAL POSITION

June 30, 2016

ASSETS

CURRENT ASSETS

Cash	\$ 921,445
Grants receivable	54,158
Prepaid expenses	<u>9,560</u>

<i>Total current assets</i>	<u>985,163</u>
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PROPERTY AND EQUIPMENT

Land	19,200
Buildings and improvements	169,405
Furniture and equipment	125,709
Textbooks	130,408
Vehicles	166,642
Less: accumulated depreciation	<u>(41,463)</u>

<i>Property and equipment, net</i>	<u>569,901</u>
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TOTAL ASSETS	<u><u>\$ 1,555,064</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current portion of notes payable	\$ 105,300
Accounts payable and accrued expenses	<u>116,632</u>

<i>Total current liabilities</i>	221,932
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LONG-TERM LIABILITIES

Notes payable, net of current portion	<u>796,370</u>
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<i>Total liabilities</i>	1,018,302
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NET ASSETS, UNRESTRICTED	<u>536,762</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,555,064</u></u>
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See independent auditors' report and accompanying notes to the financial statements

DUGGER UNION COMMUNITY SCHOOL CORPORATION
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2016

REVENUE AND SUPPORT

State education support	\$ 1,517,076
Grant revenue	588,926
Student fees	62,454
Contributions	62,192
Other income	<u>62,293</u>

<i>Total revenue and support</i>	<u>2,292,941</u>
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EXPENSES

Program services	1,263,186
Management and general	<u>518,189</u>

<i>Total expenses</i>	<u>1,781,375</u>
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CHANGE IN NET ASSETS	511,566
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NET ASSETS, BEGINNING OF YEAR	<u>25,196</u>
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NET ASSETS, BEGINNING OF YEAR	<u><u>\$ 536,762</u></u>
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See independent auditors' report and accompanying notes to the financial statements

DUGGER UNION COMMUNITY SCHOOL CORPORATION**STATEMENT OF FUNCTIONAL EXPENSES****For the Year Ended June 30, 2016**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES			
Salaries and wages	\$ 697,921	\$ 265,790	\$ 963,711
Employee benefits	197,741	71,257	268,998
Staff development	13,058	-	13,058
Professional services	16,130	50,748	66,878
Repairs and maintenance	27,165	-	27,165
Authorizer oversight fees	-	41,744	41,744
Food costs	63,075	-	63,075
Advertising	-	17,003	17,003
Transportation	7,081	984	8,065
Classroom, kitchen, and office supplies	31,220	16,868	48,088
Occupancy	113,130	-	113,130
Depreciation	40,183	-	40,183
Information technology	21,221	-	21,221
Interest	-	5,677	5,677
Insurance	-	23,709	23,709
Fundraising	-	14,121	14,121
Other	<u>35,261</u>	<u>10,288</u>	<u>45,549</u>
<i>Total functional expenses</i>	<u><u>\$ 1,263,186</u></u>	<u><u>\$ 518,189</u></u>	<u><u>\$ 1,781,375</u></u>

See independent auditors' report and accompanying notes to the financial statements

DUGGER UNION COMMUNITY SCHOOL CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016

OPERATING ACTIVITIES

Change in net assets	\$ 511,566
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	40,183
Donation of school facilities	(19,200)
Change in certain assets and liabilities:	
Grants receivable	(54,158)
Prepaid expenses	(4,083)
Accounts payable and accrued expenses	<u>115,001</u>
<i>Net cash provided by operating activities</i>	<u>589,309</u>

INVESTING ACTIVITIES

Purchases of property and equipment	<u>(413,806)</u>
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FINANCING ACTIVITIES

Proceeds from notes payable	750,000
Principal payments on notes payable	<u>(14,972)</u>
<i>Net cash provided by financing activities</i>	<u>735,028</u>

NET CHANGE IN CASH

910,531

CASH, BEGINNING OF YEAR

10,914

CASH, END OF YEAR

\$ 921,445

SUPPLEMENTAL INFORMATION

School facilities obtained through a donation	\$ 19,200
Vehicles financed through a note payable	166,642
Cash paid for interest	5,677

See independent auditors' report and accompanying notes to the financial statements

DUGGER UNION COMMUNITY SCHOOL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Dugger Union Community School Corporation (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 sponsored by Grace College. The School commenced operations with the 2015-16 academic year and serves students in Kindergarten through grade twelve.

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 primarily 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 significant 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.

Contribution Revenue – During the year ended June 30, 2016, Northeast School Corporation donated the School’s facility, including the land and building, to Dugger Union Community School Corporation. Given the absence of an active market with which to determine the fair value of the donated facility, the School recorded the contribution and related asset at the appraised value of land on which the building resides of \$19,200.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs 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.

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases 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:

Buildings and improvements	7 - 20 years
Furniture and equipment	3 to 7 years
Textbooks	4 to 5 years
Vehicles	5 years

DUGGER UNION COMMUNITY SCHOOL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – Dugger Union Community School Corporation 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 year ended June 30, 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. Since the School commenced operations in 2015, all tax years are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through December 31, 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.

NOTE 2 - NOTES PAYABLE

Notes payable at June 30, 2016 was comprised of:

Note payable to the Indiana State Board of Education, payable \$37,500 semi-annually (January 1 and July 1) plus interest at 1% per annum until July 2026.	\$	750,000
Note payable to TCF National Bank, payable \$18,898 semi-annually (July 1 and December 1) including interest at 4.71% per annum until December 2020. Secured by busses.		151,670
		<hr/> 901,670
Less: current portion		<hr/> (105,300)
Long-term portion	\$	<hr/> <hr/> 796,370

The note payable to the State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. This note is secured by the School's future tuition support payments on the School's basic grant.

DUGGER UNION COMMUNITY SCHOOL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 - NOTES PAYABLE, Continued

Principal maturities of notes payable are as follows for the years ending June 30:

2017	\$ 105,300
2018	107,491
2019	109,039
2020	110,662
2021	94,178
Thereafter	<u>375,000</u>
	<u>\$ 901,670</u>

NOTE 3 - RETIREMENT PLAN

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributes 7.5% of compensation for electing teaching faculty to TRF and 11.2% of compensation for other electing employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2015 (the latest year reported), both TRF and PERF were more than 80% funded. Retirement plan expense was \$75,147 for the year ended June 30, 2016.

NOTE 4 - COMMITMENTS

The School operates under a charter granted by Grace College. As the sponsoring organization, Grace College exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Grace College an annual administrative fee equal to 3% of state tuition support received. Expense under this charter agreement was \$41,744 for the year ended June 30, 2016. The charter remains in effect until June 30, 2018 and is renewable thereafter by mutual consent.

NOTE 5 - RISKS AND UNCERTAINTIES

The School provides educational instruction services to persons primarily residing in Dugger, Indiana and greater Sullivan County, 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.

DUGGER UNION COMMUNITY SCHOOL CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

NOTE 5 - RISKS AND UNCERTAINTIES, Continued

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. In addition, deposits maintained at First Financial Bank are insured up to the FDIC insurance limit.

NOTE 6 - PRIOR PERIOD FINANCIAL ACTIVITY

Prior to the School's initial year of operations, it received income in the form of contributions of approximately \$30,000 to fund necessary startup costs. The School used these funds to purchase \$11,716 in textbooks and equipment and incurred expenses of \$4,804. The School had a cash balance of \$10,914 and a net assets balance of \$25,196 as of July 1, 2015.

NOTE 7 - FUNCTIONAL EXPENSE REPORTING

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

DUGGER UNION COMMUNITY SCHOOL CORPORATION

OTHER REPORT

For the Year Ended June 30, 2016

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

Supplemental Audit Report of Dugger Union Community School Corporation.

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*.