



STATE OF INDIANA
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December 28, 2012

Charter School Board
Discovery School Inc. d/b/a Galileo Charter School
777 North 12th Street
Richmond, IN 47374

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2011 to June 30, 2012. 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 Discovery School Inc. d/b/a Galileo Charter School, as of June 30, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Financial Statements and Independent Auditors' Report are filed in our office as a matter of public record.

State Board of Accounts

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

Financial Statements

June 30, 2012

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

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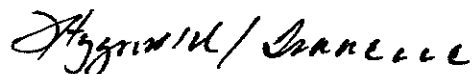
INDEPENDENT AUDITORS' REPORT

The Board of Directors
Discovery School, Inc.

We have audited the accompanying statement of financial position of **Discovery School, Inc. d/b/a Galileo Charter School** as of June 30, 2012 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Discovery School, Inc. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Discovery School, Inc. as of June 30, 2012, 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.



November 19, 2012

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

Statement of Financial Position

<u>Assets</u>	<u>June 30, 2012</u>
Current assets:	
Cash and cash equivalents	\$ 128,176
Accounts receivable:	
State tuition support	801,659
Grants	12,777
Prepaid expense	4,989
Total current assets	<u>947,601</u>
Property and equipment:	
Buildings and improvements	675,846
Furniture and equipment	213,683
Textbooks	67,426
	<u>956,954</u>
Less accumulated depreciation	(382,438)
Property and equipment, net	<u>574,516</u>
	<u>\$ 1,522,117</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 121,004
Current portion of long-term debt	40,408
Total current liabilities	<u>161,412</u>
Accrued interest on Common School Fund loans	124,789
Long-term debt	1,089,518
Total liabilities	<u>1,375,719</u>
Unrestricted net assets	<u>146,398</u>
	<u>\$ 1,522,117</u>

See accompanying notes to financial statements.

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

Statement of Activities

	Year Ended June 30, 2012
<u>Revenue, Gains and Support</u>	
State education support	\$ 1,603,340
Grant revenue	481,627
Student fees	887
Interest income	3,029
Other income	1,595
	<u>2,090,478</u>
<u>Expenses</u>	
Program services:	
Educational instruction	1,106,212
Education support	449,372
Administrative	512,742
Total expenses	<u>2,068,326</u>
Increase in net assets	22,152
Net assets, beginning of year	<u>124,246</u>
Net assets, end of year	<u>\$ 146,398</u>

See accompanying notes to financial statements.

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

Statement of Cash Flows

	Year Ended June 30, 2012
<u>Operating Activities</u>	
Increase in net assets	\$ 22,152
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	48,349
Change in:	
Accounts receivable	(5,345)
Prepaid expense	18,845
Accounts payable and accrued expenses	(3,962)
Refundable advances	(18,057)
Net cash provided by operating activities	<u>61,982</u>
<u>Investing Activities</u>	
Purchases of property and equipment	(4,521)
Net cash used by investing activities	<u>(4,521)</u>
<u>Financing Activities</u>	
Principal repayments of City of Richmond loans	(29,521)
Principal repayments of Illinois Facility Fund loan	(15,356)
Principal repayments of First Bank of Richmond loan	(20,119)
Net cash used by financing activities	<u>(64,996)</u>
Net decrease in cash	(7,535)
Cash and cash equivalents, beginning of year	<u>135,711</u>
Cash and cash equivalents, end of year	<u>\$ 128,176</u>
Supplemental disclosures:	
Cash payments for interest expense	\$ 16,846

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

General

Discovery School, Inc. d/b/a Galileo 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 20-24-3-1 and is sponsored by Ball State University. The School commenced operations as of August 1, 2005.

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 public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in equal monthly installments in January through December following the start of the school year. Revenue is recognized in the year in which the 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 amounts of costs and expenses at the time they are incurred.

Accounts Receivable

Accounts 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.

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in bank accounts and short-term, highly liquid investments with original maturities of three months or less.

Taxes on Income

Discovery School, Inc. 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, 2012, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional 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. The tax years ending 2011, 2010, and 2009 are open to audit for both federal and state purposes.

Property and Equipment

Purchases of these 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:

Buildings and improvements	7 to 39 years
Furniture and equipment	3 to 5 years
Textbooks	3 years

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through November 19, 2012, 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.

(2) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 represent amounts due relating to the following sources:

Tuition support	\$753,692
Special education grant	<u>47,967</u>
	<u>\$801,659</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students. The payment schedule is likewise determined by state law with tuition support payable in equal monthly installments in the calendar year following the start of school. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 3).

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

Notes to Financial Statements

(3) Notes Payable

Long-term debt at June 30, 2012 was comprised of:

Note payable to Illinois Facility Fund.....	\$ 15,965
Note payable to First Bank of Richmond.....	219,664
Note payable to City of Richmond.....	2,952
Notes payable to Indiana Common School Fund.....	<u>891,345</u>
	1,129,926
Less current maturities	<u>(40,408)</u>
	<u>\$1,089,518</u>

The Illinois Facility Fund note is payable in monthly installments of \$1,482, including interest at 4.25% per annum. The note matures in May 2013 and is secured by all business assets.

The First Bank of Richmond note is payable in monthly installments of \$2,928 with the unpaid balance due in a balloon payment in October 2015. The note accrues interest at 6.5% per annum and is secured by accounts receivable and modular building units.

The City of Richmond note is payable in monthly installments of \$1,435, including interest at 4% per annum. The note matures in October 2012 and is secured by all business assets, subordinated to the security interests of the other creditors.

The notes payable to the Indiana Common School Fund are comprised of multiple notes, each of which requires semi-annual payments of principal and interest over a period of 20 years with interest at 4% per annum. In 2011, the Indiana Common School Fund granted a second moratorium on loan payments. Payments will commence again on July 1, 2013. The last note matures January 1, 2033. These notes are secured by unpaid tuition support distributions (see Note 2).

DISCOVERY SCHOOL, INC.
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Notes to Financial Statements

(3) Notes Payable, Continued

Principal maturities under the loan agreements are as follows:

<u>Year Ending June 30:</u>	
2013	\$ 40,408
2014	70,883
2015	72,419
2016	198,729
2017	47,953
Thereafter	<u>699,534</u>
	<u>\$1,129,926</u>

(4) Leases

The School leases its school buildings as well as certain items of office equipment under operating leases for terms from one to seven years. Expense under operating leases for the year ended June 30, 2012 was \$67,997. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows:

<u>Year Ending June 30:</u>	
2013	\$61,382
2014	31,033
2015	23,241
2016	23,241
2017	23,241
Thereafter	40,672

DISCOVERY SCHOOL, INC.
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Notes to Financial Statements

(5) Retirement Plans

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 multiple-employer defined benefit retirement plans created by the State of Indiana. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 6.5% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$60,317 for the year ended June 30, 2012.

(6) 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. Expense under this charter agreement was \$45,222 for the year ended June 30, 2012. The charter remains in effect until June 30, 2013, and is renewable thereafter by mutual consent.

(7) Risks and Uncertainties

The School provides educational instruction services to families residing in Wayne 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, 2012, substantially all of the accounts receivable balance was due from the State of Indiana. All cash deposits are maintained at First Bank of Richmond and are secured by FDIC insurance up to the legal limit.

DISCOVERY SCHOOL, INC.
d/b/a
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Notes to Financial Statements

(8) 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 among the programs and services benefited. Following is a summary of expenses comprising each program and/or service for the year ended June 30, 2012:

	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages	\$ 679,802	87,559	231,406
Employee benefits.....	198,840	6,698	75,354
Professional services.....	40,865	50,881	45,226
Authorizer oversight fee	-	-	45,222
Transportation.....	-	132,751	-
Food costs	-	143,004	-
Property rental.....	28,127	-	-
Classroom, kitchen and office supplies	12,333	3,238	34,019
Occupancy	97,605	11,215	-
Depreciation.....	48,349	-	-
Interest	-	-	52,500
Insurance.....	-	-	13,860
Other	<u>291</u>	<u>14,026</u>	<u>15,155</u>
	<u>\$1,106,212</u>	<u>449,372</u>	<u>512,742</u>