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July 16, 2013

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 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 Duneland Charter School, Inc. d/b/a Discovery 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.

We call your attention to the findings in the report. Pages 22 through 26 contain three current audit findings.

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.

State Board of Accounts

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

Financial Statements and Federal Single Audit Report

June 30, 2012

Fitzgerald | Isaac LLC
Certified Public Accountants

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

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Duneland Charter School, Inc.

We have audited the accompanying statement of financial position of **Duneland Charter School, Inc. d/b/a Discovery Charter School** (the "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 School's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Duneland Charter 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2013 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Indianapolis, IN
May 1, 2013

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

Statement of Financial Position

Assets	June 30, 2012
Current assets:	
Cash	\$ 220,550
Accounts receivable:	
State education support	936,016
Grants	4,078
Unconditional promise to give	22,500
Prepaid expenses	22,963
Total current assets	1,206,107
Security deposit	43,620
Property and equipment:	
Textbooks	60,062
Leasehold improvements	42,360
Furniture and equipment	590,336
Less: accumulated depreciation	(149,812)
Property and equipment, net	542,946
	\$ 1,792,673
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 571,800
Current portion of long-term debt	90,353
Current portion of capital lease obligation	39,760
Total current liabilities	701,913
Accrued interest on Common School Fund loans	36,250
Long-term debt	1,094,689
Capital lease obligation	19,434
Total liabilities	1,852,286
Unrestricted net assets (deficiency)	(59,613)
	\$ 1,792,673

See accompanying notes to financial statements.

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

Statement of Activities

	Year Ended June 30, 2012
<u>Revenue, Gains and Support</u>	
State education support	\$ 1,872,105
Grant revenue	525,502
Student fees	76,089
Contributions	17,069
Other	10,358
Total revenue, gains and support	<u>2,501,123</u>
 <u>Expenses</u>	
Program services:	
Educational instruction	1,621,194
Education support	384,040
Administrative	459,081
Total expenses	<u>2,464,315</u>
 Increase in net assets	36,808
 Net assets (deficiency), beginning of year	<u>(96,421)</u>
 Net assets (deficiency), end of year	<u>\$ (59,613)</u>

See accompanying notes to financial statements.

DUNELAND CHARTER SCHOOL, INC.

d/b/a

DISCOVERY CHARTER SCHOOL

Statement of Cash Flows

	Year Ended June 30, 2012
<u>Operating Activities</u>	
Change in net assets	\$ 36,808
Adjustments to reconcile change in net assets to cash flows from operating activities:	
Depreciation	93,550
Change in:	
Accounts receivable	110,500
Unconditional promise to give	37,500
Prepaid expenses	(6,179)
Accounts payable and accrued expenses	24,077
Net cash provided by operating activities	<u>296,256</u>
<u>Investing Activities</u>	
Acquisition of property and equipment	(205,700)
Net cash used by investing activities	<u>(205,700)</u>
<u>Financing Activities</u>	
Proceeds from State of Indiana loans	143,687
Principal repayments on long-term debt	(56,466)
Principal reduction of capital lease obligation	(39,300)
Net cash provided by financing activities	<u>47,921</u>
Net increase in cash	138,477
Cash, beginning of year	<u>82,073</u>
Cash, end of year	<u>\$ 220,550</u>
Supplemental disclosures:	
Cash paid for interest expense	\$ 18,073
Non-cash investing and financing activities:	
Equipment obtained under capital lease	\$ 40,620
Reduction of debt obligation in exchange for service agreement	29,034

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

General

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 2010-11 school year.

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.

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.

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 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 school 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.

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

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:

Textbooks	5 years
Leasehold improvements.....	39 years
Furniture and equipment	3 to 7 years

Taxes on Income

The School 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 year ending June 30, 2011 is open to audit for both federal and state purposes.

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Subsequent Events

The School evaluated subsequent events through May 1, 2013, 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) Correction in Accounting

In 2012, the School determined that grant funding of \$283,938 under a cost reimbursement grant covering costs incurred during the fiscal year ended June 30, 2011 had not been reported as revenue in 2011. In addition, it was determined that sponsor fees and management fees in the amount of \$61,086 that are based on state funding receivable as of June 30, 2011 had not been recorded as expense. The School has corrected these errors by restating the previously issued 2011 financial statements. The net asset deficiency as of July 1, 2011 has been reduced by \$222,852 to reflect this correction.

(3) Accounts Receivable

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

Tuition support	\$841,764
Special education grant	47,878
Prime Time grant.....	<u>46,374</u>
	<u>\$936,016</u>

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

Notes to Financial Statements

(3) Accounts Receivable, Continued

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 the school year. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of loans from the Indiana Common School Fund (see Note 3).

(4) Long-Term Debt

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

Notes payable to Indiana Common School Fund.....	\$955,460
Equipment purchase agreement.....	30,998
Note payable to IFF.....	<u>198,584</u>
	1,185,042
Less current maturities	<u>(90,353)</u>
	<u>\$1,094,689</u>

The notes payable to the Indiana Common School Fund are comprised of two 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 moratorium on loan payments. Payments are scheduled to commence again on July 1, 2013. The notes mature January 1, 2033 and are secured by unpaid tuition support distributions (see Note 2).

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 is made on a monthly basis over a three-year period. The note is secured by the related equipment, and repayments are to be completed in March 2013.

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

Notes to Financial Statements

(4) Long-Term Debt, Continued

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.

Future maturities of long-term debt are as follows:

<u>Year Ended June 30:</u>	
2013	\$ 90,353
2014	110,165
2015	113,357
2016	59,025
2017	47,773
Thereafter	<u>764,369</u>
	<u>\$1,185,042</u>

(5) Leases

The School leases computer equipment under capital leases. At June 30, 2012 the cost and accumulated depreciation of the equipment relating to these leases were \$121,417 and \$40,908, respectively.

Following is a schedule of minimum lease payments under capital leases and the present value of net minimum lease payments as of June 30, 2012.

<u>Year Ended June 30:</u>	
2013	\$43,379
2014	17,820
2015	<u>2,548</u>
	63,747
Less: Amount representing interest.....	<u>(4,553)</u>
	<u>\$59,194</u>

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

Notes to Financial Statements

(5) Leases, Continued

The School leases its school facility and a modular building unit under operating leases for terms from two to five years. Expense under operating leases for the year ended June 30, 2012 was \$256,600. Future minimum lease obligations for noncancelable operating leases with initial lease terms in excess of one year are as follows:

Year Ended June 30:

2013	\$227,220
2014	230,000
2015	235,000

(6) 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 multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement 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 expense was \$98,068 for the year ended June 30, 2012.

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

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

Notes to Financial Statements

(7) 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. The charter remains in effect until June 30, 2015, and is renewable thereafter by mutual consent. Payments under this agreement were \$46,406 for the year ended June 30, 2012.

The School contracted with American Quality Schools, a 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. Payments under this contract were \$106,880 for the year ended June 30, 2012.

(8) 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.

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. In addition, deposits are maintained at Chase Bank and frequently exceed the FDIC insurance limit.

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

Notes to Financial Statements

(9) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated among the programs and services benefited. Following is a summary of expenses comprising each program and service for the year ended June 30, 2012:

	<u>Educational</u> <u>Instruction</u>	<u>Education</u> <u>Support</u>	<u>Admini-</u> <u>strative</u>
Salaries and wages.....	\$941,680	62,013	131,559
Employee benefits.....	258,610	8,819	27,244
Staff development and recruitment.....	1,022	-	297
Authorizer oversight fees	-	-	46,406
Management fees.....	-	-	106,880
Food service	-	24,685	-
Transportation service	-	27,795	-
Other professional services	27,061	101,679	37,134
Property and textbook rental.....	10,814	-	20,182
Classroom, kitchen and office supplies.....	24,436	11,870	11,973
Repairs and maintenance.....	-	25,343	-
Occupancy	263,209	121,836	-
Depreciation	93,550	-	-
Interest	-	-	30,661
Insurance	-	-	25,492
Other.....	<u>812</u>	<u>-</u>	<u>21,253</u>
	<u>\$1,621,194</u>	<u>384,040</u>	<u>459,081</u>

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-Through Indiana Department of Education Grants to Local Educational Agencies	84.010		18,257
Charter Schools Program	84.282	A58-1-11RR-003	714,185
Special Education - Grants to States	84.027		57,671
Improving Teacher Quality State Grants	84.367		<u>5,957</u>
Total federal awards expended			<u>\$ 796,070</u>

See accompanying Independent Auditors' Report.
See accompanying notes to this schedule.

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

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Duneland Charter School, Inc. d/b/a Discovery Charter School ("the School") under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Directors
Duneland Charter School, Inc.

We have audited the financial statements of **Duneland Charter School, Inc. d/b/a Discovery Charter School** ("the School") as of and for the year ended June 30, 2012 and have issued our report thereon dated May 1, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

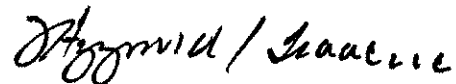
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-2 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the School are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Indianapolis, IN
May 1, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
Discovery Charter School, Inc.

Compliance

We have audited the compliance of **Duneland Charter School, Inc. d/b/a Discovery Charter School** ("the School") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2012. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified one deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-3. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the School's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Thomas J. Francis

Indianapolis, IN
May 1, 2013

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses: Yes
- Significant deficiencies that are not considered to be material weaknesses: Yes

Noncompliance noted which is material to financial statements: No

Federal Awards

Internal control over major programs:

- Material weaknesses: None Reported
- Significant deficiencies that are not considered to be material weaknesses: Yes

Type of auditors' report issued on compliance for major programs: Unqualified

Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: No

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

I. Summary of Auditors' Results, Continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.282	Charter Schools Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee:	No
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II. Financial Statement Findings

MATERIAL WEAKNESS

FINDING 2012-1 INTERNAL COMMUNICATION

Condition

Effective July 1, 2011, the School changed the responsibility for its accounting services from American Quality Schools Corporation (AQS) to Bookkeeping Plus, Inc. Subsequent to the change, there were a number of accounting entries recorded by AQS for the year ended June 30, 2011 that affected the accounting for the fiscal year ended June 30, 2012. These entries were not effectively communicated to Bookkeeping Plus.

Criteria

OMB Circular A-110, Section ____ .21 states, in part:

“(b) Recipients’ financial management systems shall provide for the following.

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in Section ____ .52.”

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

II. Financial Statement Findings, Continued

In addition, Chapter 10 of the Accounting and Uniform Compliance Guidelines for Indiana Charter Schools states:

“Charter schools shall have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management’s objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making.”

Cause

This error in accounting appears to be the result of poor communication between the School’s management and the contracted accountants.

Effect

The lack of communication resulted in a misstatement of the financial statements.

Recommendation

We recommend that any actions by management be communicated immediately to Bookkeeping Plus along with supporting documentation in order to assure accurate and timely reporting. Monthly financial statements should be monitored in relation to budget to assure that the financial statements reflect all known transactions.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

II. Financial Statement Findings, Continued

SIGNIFICANT DEFICIENCY

FINDING NO. 2012-2 GRANT MANAGEMENT

Condition

In the first year of the Implementation Grant, the School reported as a grant cost the cost of computers acquired under a capital lease. In the second year of the grant, the School reported as a grant cost lease payments made under the lease agreement. As such, a duplication of costs was reported. Other allowable costs had been incurred to replace the duplicate costs.

Criteria

OMB Circular A-110, Section ____ .21 states, in part:

“(b) Recipients’ financial management systems shall provide for the following.

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in Section ____ .52...
- (2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligated balances, assets, outlays, income and interest.”

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

II. Financial Statement Findings, Continued

In addition, Chapter 10 of the Accounting and Uniform Compliance Guidelines for Indiana Charter Schools states:

“Charter schools shall have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management’s objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making.”

Cause

The School did not have procedures in place to manage grant expenditures.

Effect

The failure to properly report costs and expenses to a grant program could result in liability to the School.

Recommendation

We recommend that the School implement a process to review expenditures as they occur in order to determine the allowability under grant agreements.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

III. Federal Award Findings and Questioned Costs

FINDING NO. 2012-3 GRANT MANAGEMENT

Federal Agency:	U.S. Department of Education
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Charter Schools Program
CFDA Number:	84.282
Award Year: FY	2011-12

As discussed in Finding No. 2012-2, certain costs charged to the Charter Schools Program grant were duplicates of costs previously charged. Other allowable costs had been incurred to replace the duplicate costs. We recommend review processes be implemented to assure the allowability of grant costs at the time of the transaction.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

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

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2012

Duneland Charter School, Inc. d/b/a Discovery Charter School did not meet the threshold for an audit in accordance with OMB Circular A-133 for the year ended June 30, 2011. As such, there were no prior audit findings.

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

Other Reports

Year Ended June 30, 2012

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

Supplemental Audit Report of Duneland Charter School, 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*.

DUNELAND CHARTER SCHOOL , INC.

Attachment A

d/b/a

DISCOVERY CHARTER SCHOOL

YEAR ENDED JUNE 30, 2012

MANAGEMENT'S RESPONSE TO FINANCIAL STATEMENT FINDINGS

FINDING 2012-1-INTERNAL COMMUNICATION

As a result of staff turnover at AQS in 2011, and a realignment of responsibilities within the management company, accounting responsibilities were turned over to BPI from AQS. The AQS accountant that had been servicing Discovery left the employ of the company which resulted in a breakdown in communication between AQS and BPI. With the transfer of the Discovery account to a new accountant within AQS, communication in the current school year (FY'13) has dramatically improved between AQS and BPI. As of July 1, 2013, the accounting for Discovery will be transferred back to AQS from BPI thus eliminating any opportunity for miscommunication.

FINDING 2012-2-GRANT MANAGEMENT

The grant writing and reporting process has been substantially improved. The duplication of costs referenced was again due to miscommunication between AQS and BPI as identified in Finding 2012-1. With the transfer of accounting responsibilities back to AQS as mentioned above, there will be no opportunity for expenditures to be improperly charged to grants.

FINDING 2012-3-Grant Management

See response to Finding 2012-2.