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October 29, 2013

Charter School Board  
Discovery School Inc. d/b/a  
Kenneth A. Christmons Stemm Academy  
777 N. 12<sup>th</sup> 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, 2012 to June 30, 2013. 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 Discovery School Inc. d/b/a Kenneth A. Christmons Stemm Academy, as of June 30, 2013, 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 is filed in our office as a matter of public record.

*State Board of Accounts*

**DISCOVERY SCHOOL, INC.**

**d/b/a**

**KENNETH A. CHRISTMON STEM ACADEMY**

*Financial Statements*

*June 30, 2013 and 2012*

**Fitzgerald | Isaac** LLC  
Certified Public Accountants

DISCOVERY SCHOOL, INC.  
d/b/a  
KENNETH A. CHRISTMON STEMM ACADEMY

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Discovery School, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **Discovery School, Inc. d/b/a Kenneth A. Christmon STEMM Academy**, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Discovery School, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis-of-Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming that the organization will continue as a going concern. As discussed in Note 2 to the financial statements, the organization's charter to operate as a public charter school was not renewed by the charter school sponsor. The inability to operate as a charter school and obtain state financial support raises substantial doubt about the organization's ability to continue as a going concern. Management's plans regarding this matter are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.



Indianapolis, IN  
September 16, 2013

DISCOVERY SCHOOL, INC.  
d/b/a  
KENNETH A. CHRISTMON STEMM ACADEMY

Statements of Financial Position

	June 30	
Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$ 106,151	128,176
Accounts receivable:		
State tuition support	-	801,659
Grants	27,566	12,777
Prepaid expense	14,039	4,989
Total current assets	147,756	947,601
Property and equipment:		
Buildings and improvements	675,846	675,846
Furniture and equipment	232,537	213,683
Textbooks	67,426	67,426
	975,809	956,954
Less: accumulated depreciation	(427,529)	(382,438)
Property and equipment, net	548,280	574,516
	\$ 696,036	1,522,117
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 56,794	121,004
Current portion of long-term debt	14,847	40,408
Total current liabilities	71,641	161,412
Accrued interest on Common School Fund loans	-	124,789
Long-term debt	175,232	1,089,518
Total liabilities	246,873	1,375,719
Unrestricted net assets	449,163	146,398
	\$ 696,036	1,522,117

See accompanying notes to financial statements.

DISCOVERY SCHOOL, INC.  
d/b/a  
KENNETH A. CHRISTMON STEMM ACADEMY

Statements of Activities

	Year Ended June 30	
	2013	2012
<u>Revenue, Gains and Support</u>		
State education support	\$ 1,511,772	1,603,340
Grant revenue	508,233	481,627
Student fees	708	887
Interest income	3,364	3,029
Other income	1,480	1,595
Total revenue, gains, and support	<u>2,025,557</u>	<u>2,090,478</u>
<u>Expenses</u>		
Program services:		
Educational instruction	1,071,037	1,106,212
Education support	415,876	449,372
Administrative	527,315	512,742
Total expenses	<u>2,014,228</u>	<u>2,068,326</u>
Increase in net assets before non-operating revenue	11,329	22,152
<u>Non-Operating Revenue</u>		
Gain due to changes in legislative funding	<u>291,436</u>	<u>-</u>
Increase in net assets	302,765	22,152
Net assets, beginning of year	<u>146,398</u>	<u>124,246</u>
Net assets, end of year	<u>\$ 449,163</u>	<u>146,398</u>

See accompanying notes to financial statements.

DISCOVERY SCHOOL, INC.  
d/b/a  
KENNETH A. CHRISTMON STEMM ACADEMY

Statements of Cash Flows

	<u>Year Ended June 30</u>	
	<u>2013</u>	<u>2012</u>
<u>Operating Activities</u>		
Increase in net assets	\$ 302,765	22,152
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain due to changes in legislative funding	(291,436)	-
Depreciation	45,091	48,349
Change in:		
Accounts receivable	30,984	(5,345)
Prepaid expense	(9,050)	18,845
Accounts payable and accrued expenses	(33,022)	(3,962)
Refundable advances	-	(18,057)
Net cash provided by operating activities	<u>45,332</u>	<u>61,982</u>
<u>Investing Activities</u>		
Purchases of property and equipment	(18,855)	(4,521)
Net cash used by investing activities	<u>(18,855)</u>	<u>(4,521)</u>
<u>Financing Activities</u>		
Principal repayments of City of Richmond loans	(2,952)	(29,521)
Principal repayments of Illinois Facility Fund loan	(15,965)	(15,356)
Principal repayments of First Bank of Richmond loan	(29,585)	(20,119)
Net cash used by financing activities	<u>(48,502)</u>	<u>(64,996)</u>
Net decrease in cash	(22,025)	(7,535)
Cash and cash equivalents, beginning of year	<u>128,176</u>	<u>135,711</u>
Cash and cash equivalents, end of year	<u>\$ 106,151</u>	<u>128,176</u>
Supplemental disclosures:		
Cash payments for interest expense	\$ 19,087	16,846

See accompanying notes to financial statements.

DISCOVERY SCHOOL, INC.  
d/b/a  
KENNETH A. CHRISTMON STEMM ACADEMY

Notes to Financial Statements

June 30, 2013 and 2012

(1) Summary of Significant Accounting Policies

General

Discovery School, Inc. d/b/a Kenneth A. Christmon STEMM Academy (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 as of August 1, 2005. The School's sponsor, Ball State University, did not renew the School's charter upon expiration at June 30, 2013. As such, the School ceased all normal operations as a charter school as of that date.

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 academic 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.

DISCOVERY SCHOOL, INC.  
d/b/a  
KENNETH A. CHRISTMON STEMM ACADEMY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

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.

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 years ended June 30, 2013 and 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 2012, 2011, and 2010 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.

DISCOVERY SCHOOL, INC.  
d/b/a  
KENNETH A. CHRISTMON STEMM ACADEMY

Notes to Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

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

Subsequent Events

The School evaluated subsequent events through September 16, 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) Going Concern Issues

In 2013, the School received notification from its charter sponsor, Ball State University, that the sponsor would not renew the charter when it expires on June 30, 2013. With the loss of the charter, funding from the State of Indiana also ceased as of June 30, 2013. Funding from the State of Indiana comprises substantially all of the organization's revenue. The Board of Directors is investigating other means by which it could provide service to the community, along with potential sources of funding. The loss of the School's charter, along with the absence of an identifiable alternative source of funding, raises substantial doubt about the organization's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary if the organization is unable to continue as a going concern.

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

(3) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in monthly installments in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, charter school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will no longer be paid.

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans.....	\$891,345
Repayment of accrued interest on Common School Fund loans....	<u>155,977</u>
	1,047,322
Elimination of School funding .....	<u>(755,886)</u>
	<u>\$291,436</u>

(4) Accounts Receivable

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

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

DISCOVERY SCHOOL, INC.  
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Notes to Financial Statements

(4) 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 and other factors. 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 academic school year. See Note 3 regarding legislative funding changes.

(5) Long-Term Debt

Long-term debt at June 30, 2013 and 2012 was comprised of:

	<u>2013</u>	<u>2012</u>
Note payable to First Bank of Richmond.....	\$190,079	219,664
Note payable to Illinois Facility Fund .....	-	15,965
Note payable to City of Richmond .....	-	2,952
Notes payable to Indiana Common School Fund.....	-	<u>891,345</u>
	<u>190,079</u>	<u>1,129,926</u>
Less current maturities .....	<u>(14,847)</u>	<u>(40,408)</u>
	<u>\$175,232</u>	<u>1,089,518</u>

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 Illinois Facility Fund note was payable in monthly installments of \$1,482, including interest at 4.25% per annum. The note matured in May 2013.

The City of Richmond note was payable in monthly installments of \$1,435, including interest at 4% per annum. The note matured in October 2012.

The notes payable to the Indiana Common School Fund are comprised of multiple notes, each of which required semi-annual payments of principal and interest over a period of 20 years with interest at 4% per annum. In 2013 and 2012, the loans were under a moratorium on loan payments, but interest continued to accrue. In 2013, the outstanding loans and all accrued interest were repaid with funding appropriated from the State of Indiana general fund (see Note 3).

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

(5) Long-Term Debt, Continued

Principal maturities under the loan agreements are as follows:

<u>Year Ending June 30:</u>	
2014 .....	\$ 14,847
2015 .....	24,466
2016 .....	<u>150,766</u>
	<u>\$190,079</u>

(6) 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 years ended June 30, 2013 and 2012 was \$68,057 and \$67,997. Future minimum lease obligations under noncancelable operating leases with initial lease terms in excess of one year are as follows:

<u>Year Ending June 30:</u>	
2014 .....	\$31,033
2015 .....	23,241
2016 .....	23,241
2017 .....	23,241
2018 .....	23,241
Thereafter .....	17,431

DISCOVERY SCHOOL, INC.  
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Notes to Financial Statements

(7) 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 governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. For the years ended June 30, 2013 and 2012, the School contributed 7.5% of compensation for teaching faculty to TRF. The contribution to PERF for other employees was 6.5% of compensation until December 31, 2012, and 8% thereafter. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$63,102 and \$60,317 for the years ended June 30, 2013 and 2012, respectfully.

(8) Commitments

The School operated under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercised certain oversight responsibilities. Under this charter, the School agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support receipts. Expense under this charter agreement was \$20,938 and \$45,222 for the years ended June 30, 2013 and 2012, respectively. The charter was in effect until June 30, 2013.

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

(9) 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 service for the years ended June 30, 2013 and 2012:

	<u>2013</u>		
	<u>Educational</u>	<u>Education</u>	<u>Admini-</u>
	<u>Instruction</u>	<u>Support</u>	<u>strative</u>
Salaries and wages .....	\$ 683,362	69,479	220,067
Employee benefits.....	177,952	5,739	74,920
Professional services.....	21,447	42,998	88,364
Authorizer oversight fee .....	-	-	20,938
Transportation .....	-	122,837	-
Food costs .....	-	147,421	-
Property rental.....	36,631	-	-
Classroom, kitchen and office supplies .....	13,142	3,426	32,316
Occupancy .....	92,332	15,352	-
Depreciation.....	45,091	-	-
Interest .....	-	-	50,275
Insurance .....	-	-	11,108
Other .....	<u>1,080</u>	<u>8,624</u>	<u>29,327</u>
	<u>\$1,071,037</u>	<u>415,876</u>	<u>527,315</u>

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

(9) Functional Expense Reporting, Continued

	<u>2012</u>		
	<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>