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STATE OF INDIANA

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STATE BOARD OF ACCOUNTS
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January 13, 2014

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

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Wieland & Company, Inc., CPA, Independent Public Accountants, for the period July 1, 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 the Duneland Charter School, Inc. d/b/a Discovery Charter School, 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.

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 INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2013

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Wieland & Company, Inc.
Certified Public Accountants

12 West Wilson Street
Batavia, Illinois 60510
Phone (630) 406-4490
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Independent Auditor's Report

To the Board of Directors
Duneland Charter School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Duneland Charter School, Inc. d/b/a Discovery Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Duneland Charter School, Inc. d/b/a Discovery Charter School as of June 30, 2013, 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.

Report on Summarized Comparative Information

The prior year comparative information has been derived from the School's financial statements as of and for the year ended June 30, 2012. Those financial statements were audited by other auditors whose report dated May 1, 2013, expressed an unqualified opinion on those financial statements.

Other Matter

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

Wieland & Company, Inc.

Batavia, Illinois
December 19, 2013

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 and 2012

	2013	2012
ASSETS:		
Cash	$ 101,622	$ 220,550
Accounts Receivable:		
State Education Support	–	936,016
Grants	–	4,078
Unconditional Promise to Give	20,115	22,500
Prepaid Expenses	5,986	22,963
Security Deposit	43,620	43,620
Property and Equipment:		
Textbooks	63,982	60,062
Leasehold Improvements	378,668	42,360
Furniture and Equipment	644,975	590,336
	1,087,625	692,758
Accumulated Depreciation	(271,442)	(149,812)
Net Property and Equipment	816,183	542,946
TOTAL ASSETS	$ 987,526	$ 1,792,673
LIABILITIES AND NET ASSETS:		
Accounts Payable and Accrued Expenses	$ 355,073	$ 608,050
Construction Contract Payable	259,518	–
Long-Term Debt	144,119	1,185,042
Capital Lease Obligation	19,484	59,194
TOTAL LIABILITIES	778,194	1,852,286
NET ASSETS (DEFICIT)		
Unrestricted	209,332	(59,613)
TOTAL LIABILITIES AND NET ASSETS	$ 987,526	$ 1,792,673

See Accompanying Notes to Financial Statements.

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

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2013 and 2012

	2013	2012
SUPPORT AND REVENUES:		
State Education Support	$ 2,379,875	$ 1,872,105
Grant Revenue	549,291	525,502
Student Fees	83,498	76,089
Contributions	3,264	17,069
Other	6,590	10,358
TOTAL SUPPORT AND REVENUES	3,022,518	2,501,123
EXPENSES:		
Program Services:		
Eductional Instruction	1,901,850	1,621,194
Education Support	298,745	384,040
Administrative	552,978	459,081
TOTAL EXPENSES	2,753,573	2,464,315
INCREASE IN NET ASSETS	268,945	36,808
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	(59,613)	(96,421)
NET ASSETS (DEFICIT) AT END OF YEAR	$ 209,332	$ (59,613)

See Accompanying Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2013 and 2012

		2013		2012
CASH FLOWS FROM OPERATING ACTIVITIES:				
Increase in Net Assets	$	268,945	$	36,808
Adjustments to Reconcile Increase in Net Assets to				
Net Cash Provided (Used) in Operating Activities:				
Depreciation		121,630		93,550
Decrease (Increase) in:				
Accounts Receivable		(207,288)		110,500
Prepaid Expenses		16,977		(6,179)
Unconditional Promises to Give		2,385		37,500
Increase (Decrease) in:				
Accounts Payable and Accrued Expenses		(279,084)		24,077
NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES		(76,435)		296,256
CASH FLOWS FROM INVESTING ACTIVITIES:				
Cash Payments on Construction Contract		(65,000)		–
Other Cash Payments for Property and Equipment		(70,349)		(205,700)
NET CASH USED IN INVESTING ACTIVITIES		(135,349)		(205,700)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from State of Indiana Loans		191,922		143,687
Principal Repayments on Long-term Debt		(59,356)		(56,466)
Principal Reduction of Capital Lease Obligation		(39,710)		(39,300)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		92,856		47,921
NET INCREASE (DECREASE) IN CASH		(118,928)		138,477
CASH AT BEGINNING OF YEAR		220,550		82,073
CASH AT END OF YEAR	$	101,622	$	220,550
SUPPLEMENTAL DISCLOSURES:				
Cash Paid for Interest Expense	$	14,563	$	18,073
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Costs Incurred Under Construction Contract	$	324,518	$	–
Construction Contract Payable		(259,518)		–
Cash Payments on Construction Contract	$	65,000	$	–
Indiana Common School Fund Debt Forgiveness				
Principal	$	1,147,382	$	–
Accrued Interest		78,696		–
Total Amount Forgiven	$	1,226,078	$	
Deferral of Debt Obligation in Exchange for Service Agreement				
Debt Service Payments Reclassified to Trade Payables	$	35,366	$	29,034
Equipment Obtained Under Capital Lease	$	–	$	40,620

See Accompanying Notes to Financial Statements.

NOTE A - NATURE OF ACTIVITIES

Duneland Charter School, Inc. d/b/a Discovery Charter School (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24 and is sponsored by Ball State University. The School commenced operations with the 2010-2011 school year.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Promises to Give and Revenue Recognition

Grants and gifts are recognized when a grantor makes a promise to give to the School that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets in the statement of activities. It is the School's policy to report contributions with temporary restrictions that are satisfied in the same fiscal year as receipt as unrestricted contributions in the statement of activities. At June 30, 2013 and 2012, there are no temporarily or permanently restricted net assets.

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

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

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the School considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents. At June 30, 2013 and 2012, there were no cash equivalents.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment

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

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

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

Depreciation expenses totaled $121,630 and $93,550 during the eyars ended June 30, 2013 and 2012, respectively.

Income Taxes

The School applied for and has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity and had no income unrelated to its tax-exempt purpose. Accordingly, income taxes are not provided for in the financial statements. The years ended June 30, 2010 through 2013 remain subject to examination by the taxing authorities.

The financial statement effects of a tax position taken or expected to be taken are recognized when it is more likely than not, based on technical merits, that the position will be sustained upon examination. As of June 30, 2013, the School had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

NOTE C – ACCOUNTS RECEIVABLE AND TUITION SUPPORT

Tuition support is determined by state law and is dependent upon the geographical location of the school and is indexed to the poverty data of the enrolled students. The payment schedule is likewise determined by state law. Accounts receivable for state education support of $936,016 at June 30, 2012, represents accrued tuition support and grant revenues for costs incurred. Effective with the year ended June 30, 2013, the State of Indiana changed its funding period from the calendar year following the start of the school year to the fiscal year ending June 30th (see Note F). Consequently all state education support due for the period through June 30, 2013 had been received.

NOTE D – PROMISES TO GIVE

Unconditional promises to give of $20,115 and $22,500 recorded at June 30, 2013 and 2012, respectively, represent grants awarded by the U. S Department of Education for the Rural Education Achievement Program.

NOTE E – CONSTRUCTION CONTRACT

During the year ended June 30, 2013, the School entered a contract for the construction of additional classrooms and related space in its leased facility at a total cost of $324,518. Construction was completed in December 2012. The contractor agreed to monthly minimum payments of $5,000 until permanent financing can be arranged. The remaining balance under the contract was $259,518 at June 30, 2013. The School is presently in the process of procuring long-term financing.

NOTE F – INDIANA COMMON SCHOOL FUND DEBT FORGIVENESS

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

NOTE G – LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2013 and 2013:

	2013	2012
Notes payable to the Indiana Common School Fund which originally required 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 and in 2013 all amount due were forgiven (see Note F).	$ -	$ 955,460
The School has an agreement with Food Service Professionals ("FSP") to operate the student lunch program. As part of the agreement, the School acquired certain kitchen equipment from FSP in exchange for a non-interest bearing note payable. Repayment of the note was scheduled to be made on a monthly basis over a three-year period. Unpaid installments due under the note have been reclassified to accounts payable. At June 30, 2013, the School owed FSP $161,001 which is reported in accounts payable in the accompanying statement of financial position.	4,891	30,998

NOTE G – LONG-TERM DEBT - CONTINUED

Long-term debt consists of the following at June 30, 2013 and 2013:

	2013	2012
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.	139,228	198,584
	$ 144,119	$ 1,185,042

Future maturities of long-term debt are as follows:

Year Ending June 30,	
2014	$ 67,283
2015	76,836
	$ 114,119

NOTE H – LEASES AS LESSEE

Capital Leases

The School leases computer equipment under capital leases. At June 30, 2013, the cost and accumulated depreciation of the equipment relating to the leases were $121,417 and $65,191, respectively.

Future minimum lease payments under the capital leases are as follows at June 30, 2013:

Year Ending June 30,	
2014	$ 17,820
2015	2,548
	20,368
Less interest	(884)
	$ 19,484

Operating Leases

The School leases its permanent facility and a modular building. Total rent expense was $244,479 and $263,208 during the years ended June 30, 2013 and 2012, respectively. The permanent facility's agreement is a net operating lease expiring on June 30, 2015. Future annual minimum lease payments under the agreement are as follows:

Year Ending June 30,	
2014	$ 239,292
2015	244,078
	$ 483,370

NOTE I – MANAGEMENT AND OVERSIGHT FEES

Management

The School contracted with American Quality Schools, a not-for-profit organization incorporated in the State of Illinois, to provide management, administrative and educational programming services. Under the terms of the agreement, the School has agreed to pay an amount equal to 6% of revenues, as defined, for such services. The contract commenced December 1, 2008 and expires June 30, 2015. Fees incurred under the contract totaled $112,500 and $106,880 for the years ended June 30, 2013 and 2012, respectively.

Oversight

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under the charter, the School has agreed to pay Ball State University an annual administrative fee equal to 3% of state tuition support. The charter remains in effect until June 30, 2015, and is renewable thereafter by mutual consent. Fees incurred under this agreement were $61,416 and $46,406 for the years ended June 30, 2013 and 2012, respectively.

NOTE J – RETIREMENT PLAN

Retirement benefits for school employees are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are multiple-owner defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public System Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 7.25% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expenses totaled $93,819 and $84,346 during the years ended June 30, 2013 and 2012, respectively.

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

NOTE K – CONTINGENCY

The School has been assessed a penalty of $22,300 by the Internal Revenue Service for the inadvertent late filing of Form 990 - *Return of Organization Exempt From Income Tax* for the year ended June 30, 2012. Management has appealed the penalty for reasonable cause and believes it will be abated. However, the ultimate outcome of the matter is not determinable as of the date of this report.

NOTE L – RISKS AND UNCERTAINTIES

The School provides education services to families residing in Porter and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

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

NOTE M – SUBSEQUENT EVENTS

Management has evaluated subsequent events to December 19, 2013, the date on which the financial statements were available to be issued.

ADDITIONAL INFORMATION

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

SCHEDULES OF FUNCTIONAL EXPENSES

Year Ended June 30, 2013
(With Summarized Financial Information for the Year Ended June 30, 2012)

	Year Ended June 30, 2013				
	Educational Instruction	Education Support	Administrative	Total	2012 Total
Classroom, Kitchen and Office Supplies	$ 47,181	$ 10,148	$ 13,465	$ 70,794	$ 50,169
Depreciation	103,386	12,163	6,081	121,630	93,550
Employee Costs					
Salaries and Wages	1,087,415	58,262	137,510	1,283,187	1,135,252
Payroll Taxes and Benefits	271,347	15,930	33,801	321,078	294,674
Food Service	—	30,914	—	30,914	24,685
Insurance	—	—	26,030	26,030	25,492
Interest	—	—	57,009	57,009	30,661
Management and Oversight Fees	—	—	111,719	111,719	153,286
Miscellaneous	—	3,553	3,760	7,313	6,427
Occupancy					
Rents	207,172	11,099	26,208	244,479	263,208
Repairs and Maintenance	122,470	6,561	15,494	144,525	142,210
Utilities	34,182	1,831	4,325	40,338	33,859
Professional Services	28,697	81,341	99,733	209,771	143,057
Rentals, Equipment	—	11,083	—	11,083	20,182
Staff Development and Recruitment	—	7,716	—	7,716	2,353
Telephone	—	—	17,843	17,843	17,455
Transportation Service	—	48,144	—	48,144	27,795
	$ 1,901,850	$ 298,745	$ 552,978	$ 2,753,573	$ 2,464,315