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April 14, 2016

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, 2014 to June 30, 2015. 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, 2015, 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.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

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

**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT**

**Year Ended June 30, 2015**

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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, 2015, 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 America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2015, 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.

## Independent Auditor's Report – Continued

### **Report on Summarized Comparative Information**

We have previously audited Duneland Charter School, Inc. d/b/a Discovery Charter School's financial statements as of and for the year ended June 30, 2014, and our report dated October 20, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **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  
November 25, 2015

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

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b><u>ASSETS:</u></b>		
Cash	\$ 84,528	\$ 57,257
Unconditional Promise to Give	11,023	24,908
Prepaid Expenses	2,455	1,974
Security Deposit	43,620	43,620
Property and Equipment:		
Land	58,052	58,052
Textbooks	70,163	63,982
Leasehold Improvements	414,968	378,668
Furniture and Equipment	672,692	536,837
Property Under Capital Leases	68,006	121,417
	<u>1,283,881</u>	<u>1,158,956</u>
Accumulated Depreciation	<u>(530,615)</u>	<u>(386,425)</u>
Net Property and Equipment	<u>753,266</u>	<u>772,531</u>
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 894,892</u></b>	<b><u>\$ 900,290</u></b>
 <b><u>LIABILITIES AND NET ASSETS:</u></b>		
Accounts Payable and Accrued Expenses	\$ 197,174	\$ 188,448
Debt Obligations	366,685	463,197
Obligations Under Capital Leases	34,569	2,522
<b><u>TOTAL LIABILITIES</u></b>	<b>598,428</b>	<b>654,167</b>
 <b><u>NET ASSETS</u></b>		
Unrestricted	<u>296,464</u>	<u>246,123</u>
<b><u>TOTAL LIABILITIES AND NET ASSETS</u></b>	<b><u>\$ 894,892</u></b>	<b><u>\$ 900,290</u></b>

See Accompanying Notes to Financial Statements.

**DUNELAND CHARTER SCHOOL, INC.**

**d/b/a**

**DISCOVERY CHARTER SCHOOL**

**STATEMENTS OF ACTIVITIES**

**Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b><u>SUPPORT AND REVENUES:</u></b>		
State Education Support	\$ 2,713,765	\$ 2,574,741
Grant Revenue	358,895	327,786
Student Fees	112,749	117,125
Contributions	3,885	58,692
Other	30,191	24,028
	<u>3,219,485</u>	<u>3,102,372</u>
<b><u>EXPENSES:</u></b>		
Program Services:		
Educational Instruction	1,969,413	1,870,719
Education Support	425,455	440,362
Administrative	774,276	754,500
	<u>3,169,144</u>	<u>3,065,581</u>
<b><u>INCREASE IN NET ASSETS</u></b>	50,341	36,791
<b><u>NET ASSETS AT BEGINNING OF YEAR</u></b>	<u>246,123</u>	<u>209,332</u>
<b><u>NET ASSETS AT END OF YEAR</u></b> \$	<u><u>296,464</u></u>	<u><u>246,123</u></u>

See Accompanying Notes to Financial Statements.

**DUNELAND CHARTER SCHOOL, INC.**

**d/b/a**

**DISCOVERY CHARTER SCHOOL**

**STATEMENTS OF CASH FLOWS**

**Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Increase in Net Assets	\$ 50,487	\$ 36,791
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	144,044	114,983
Decrease (Increase) in:		
Unconditional Promises to Give	13,885	(4,793)
Prepaid Expenses	(481)	4,012
Increase in Accounts Payable and Accrued Expenses	8,726	21,348
	<u>216,661</u>	<u>172,341</u>
<b><u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u></b>	<u>216,661</u>	<u>172,341</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Cash Payments for Property and Equipment	<u>(56,919)</u>	<u>(71,331)</u>
	<u>(56,919)</u>	<u>(71,331)</u>
<b><u>NET CASH USED IN INVESTING ACTIVITIES</u></b>	<u>(56,919)</u>	<u>(71,331)</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Proceeds from New Loans	56,527	-
Principal Repayments on Long-term Debt	(153,039)	(128,413)
Principal Reduction of Capital Lease Obligation	<u>(35,959)</u>	<u>(16,962)</u>
	<u>(132,471)</u>	<u>(145,375)</u>
<b><u>NET CASH FLOWS USED IN FINANCING ACTIVITIES</u></b>	<u>(132,471)</u>	<u>(145,375)</u>
	<u>27,271</u>	<u>(44,365)</u>
<b><u>NET INCREASE (DECREASE) IN CASH</u></b>	<u>27,271</u>	<u>(44,365)</u>
<b><u>CASH AT BEGINNING OF YEAR</u></b>	<u>57,257</u>	<u>101,622</u>
	<u>84,528</u>	<u>57,257</u>
<b><u>CASH AT END OF YEAR</u></b>	<u>\$ 84,528</u>	<u>\$ 57,257</u>
<b><u>SUPPLEMENTAL DISCLOSURES:</u></b>		
Cash Paid for Interest Expense	<u>\$ 9,107</u>	<u>\$ 10,069</u>
Schedule of Noncash Transactions		
Property Acquired Under Capital Lease	<u>\$ 68,006</u>	<u>\$ -</u>

See Accompanying Notes to Financial Statements.

**DUNELAND CHARTER SCHOOL, INC.**

**d/b/a**

**DISCOVERY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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, 2015 and 2014, 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.

Unconditional promises to give 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, 2015 and 2014, there were no cash equivalents.

**DUNELAND CHARTER SCHOOL, INC.**

**d/b/a**

**DISCOVERY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2015**

**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 placed 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 \$144,191 and \$114,983 during the years ended June 30, 2015 and 2014, 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 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, 2015, the School had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

**Management Review**

Management has evaluated subsequent events to November 25, 2015, the date on which the financial statements were available to be issued.

**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. 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 G). Consequently all state education support due for the years ended June 30, 2015 and 2014 had been received by the respective year end dates.

**NOTE D – PROMISES TO GIVE**

Unconditional promises to give of \$11,023 and \$24,908 recorded at June 30, 2015 and 2014, respectively, represent grants awarded by the Indiana Department of Education.

**DUNELAND CHARTER SCHOOL, INC.**

**d/b/a**

**DISCOVERY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2015**

**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. Funding was partially funded with a \$60,000 loan from Charter Schools Development Corporation (CSDC) and through an installment note payable to the contractor executed during the year ended June 30, 2014 (see Note F).

**NOTE F – DEBT OBLIGATIONS**

Debt obligations consist of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
The School has an agreement with Food Service Professionals (“FSP”) to operate the student lunch program. As part of the agreement, the School acquires certain kitchen equipment from FSP in exchange for a non-interest bearing note payable. Presently due in quarterly installments of \$9,399 until paid in full.	\$ 170,424	\$ 187,973
Note payable to construction contractor dated April 1, 2014 in the original amount of \$154,518. The note is unsecured and due in monthly installments of \$4,701, including interest of 6% per annum, through February 28, 2017 (see Note E).	88,709	138,388
Note payable to Discovery PAC Incorporated with an original amount of \$36,300. The loan is to be repaid from bond proceeds presently being negotiated.	36,300	-
Loan payable to Charter Schools Development Corporation (CSDC), noninterest-bearing and due on demand (see Note E).	60,000	60,000
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. The loan was paid in full at the scheduled maturity date.	<u>11,252</u>	<u>76,836</u>
	<u>\$ 366,685</u>	<u>\$ 463,197</u>

**DUNELAND CHARTER SCHOOL, INC.**

**d/b/a**

**DISCOVERY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2015**

NOTE F – DEBT OBLIGATIONS - CONTINUED

Future annual maturities of debt obligations are as follows at June 30, 2015:

Year Ending June 30,	
2016	\$ 197,629
2017	73,822
2018	37,595
2019	37,595
2020	<u>20,044</u>
	<u>\$ 366,685</u>

NOTE H – LEASES AS LESSEE

Capital Leases

The School leases computer and HVAC equipment under capital leases. At June 30, 2015, the cost and accumulated depreciation of the equipment relating to the leases were \$68,006 and \$9,776, respectively.

Future minimum lease payments under the capital leases are as follows at June 30, 2015:

Year ending June 30,	
2016	\$ 37,183
2017	7,351
2018	<u>773</u>
	45,307
Less interest	<u>(10,738)</u>
	<u>\$ 34,569</u>

Operating Leases

The School leases its permanent facility and a modular building. Total rent expense was \$252,036 and \$248,742 during the years ended June 30, 2015 and 2014, respectively. The permanent facility's agreement is a net operating lease expiring on June 30, 2015 (see Note M). During the year ended June 30, 2015, the school entered into a new 2-year lease for its modular building. Installments of \$705 are due monthly. Future annual minimum lease payments under the agreements are as follows:

Year ending June 30,	
2016	\$ 8,460
2017	<u>2,115</u>
	<u>\$ 10,575</u>

**DUNELAND CHARTER SCHOOL, INC.**

**d/b/a**

**DISCOVERY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2015**

**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 originally expired on June 30, 2015 but was extended until June 30, 2016. Fees incurred under the contract totaled \$217,101 and \$205,979 for the years ended June 30, 2015 and 2014, 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 term of the original charter ended on June 30, 2015, and was renewed until June 30, 2020. Thereafter it is renewable by mutual consent. Fees incurred under this agreement were \$65,262 and \$62,847 for the years ended June 30, 2015 and 2014, 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 cost-sharing 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 \$119,992 and \$115,832 during the years ended June 30, 2015 and 2014, respectively.

The School also maintains a Section 403(b) retirement plan with American Quality Schools, Inc. Employees may contribute up to 100% of their compensation provided 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 – RELATED PARTY TRANSACTION**

The Discovery Charter School Parent Advisory Council (PAC) made a cash donation to the School totaling \$58,052 to fund the purchase of vacant land for future building purposes. The closing for the land purchase occurred on June 30, 2014.

During the year ended June 30, 2015, the PAC made a cash advance to the school of \$36,300 to install a modular (See Note F).

**DUNELAND CHARTER SCHOOL, INC.**

**d/b/a**

**DISCOVERY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2015**

**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 limits.

**NOTE M – SUBSEQUENT EVENTS**

In June, 2015 Discovery entered into an arrangement with an underwriter to issue approximately \$6.5 Million in bonds to buy the land and building that currently houses the school and to build additional classrooms and common areas such as a cafeteria and gymnasium. The lease with the building owner, Charter School Development Corporation (CSDC), which expired on June 30, 2015, has been renewed to accommodate the new financing or to extend the term until June 30, 2020 if the financing is not completed. It is anticipated that the student funding provided by the State of Indiana and rising enrollment will be adequate to support the possible new debt. It is not known at the opinion date whether the financing will be completed.

## ADDITIONAL INFORMATION

**DUNELAND CHARTER SCHOOL, INC.**

**d/b/a**

**DISCOVERY CHARTER SCHOOL**

**SCHEDULES OF FUNCTIONAL EXPENSES**

**Year Ended June 30, 2015**

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

	Year Ended June 30, 2015				2014 Total
	Educational Instruction	Education Support	Administrative	Total	
Classroom, Kitchen and Office Supplies	\$ 19,360	\$ 6,681	\$ 23,864	\$ 49,905	\$ 61,783
Depreciation	122,563	14,419	7,209	144,191	114,983
Employee Costs					
Salaries and Wages	1,219,328	75,622	251,740	1,546,690	1,475,172
Payroll Taxes and Benefits	315,969	28,711	69,782	414,462	378,939
Food Service	—	155,390	—	155,390	142,551
Insurance	—	—	36,874	36,874	27,095
Interest	—	—	9,107	9,107	10,069
Miscellaneous	—	6,684	15,935	22,619	9,606
Occupancy					
Rents	200,256	12,423	41,357	254,036	248,742
Repairs and Maintenance	42,780	2,653	8,836	54,269	70,932
Utilities	49,157	3,050	10,152	62,359	57,315
Professional Services	—	45,081	295,769	340,850	360,589
Staff Development and Recruitment	—	8,351	—	8,351	9,710
Telephone	—	—	3,651	3,651	11,235
Transportation Service	—	66,390	—	66,390	86,860
	<u>\$ 1,969,413</u>	<u>\$ 425,455</u>	<u>\$ 774,276</u>	<u>\$ 3,169,144</u>	<u>\$ 3,065,581</u>

**DUNELAND CHARTER SCHOOL, INC.**

**d/b/a**

**DISCOVERY CHARTER SCHOOL**

**OTHER REPORT**

**June 30, 2015**

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

Supplemental Audit Report of The Discovery Charter School