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November 16, 2016

Charter School Board  
Discovery Charter School  
800 Canonie Drive  
Porter, Indiana 46304

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Donovan P.C., Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Discovery Charter School, as of June 30, 2016, 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 the 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  
Together with Independent Auditors' Report

For the Years Ended June 30, 2016 and 2015



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### *Independent Auditors' Report*

The Board of Directors  
Duneland Charter School, Inc.

We have audited the accompanying financial statements of Duneland Charter School, Inc. d/b/a Discovery Charter School, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and change in net assets, functional expenses, 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.

#### **Auditors' 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 auditors' 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 auditors consider 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.

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**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, 2016, its change in its net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements of Duneland Charter School, Inc. d/b/a Discovery Charter School for the year ended June 30, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on November 20, 2015.

DONOVAN

A handwritten signature in dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, looped initial "D".

November 4, 2016  
Indianapolis, Indiana

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

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2016 and 2015**

<b>ASSETS</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>CURRENT ASSETS</b>		
Cash	\$ 636,273	\$ 84,528
Accounts receivable:		
Grants	11,992	11,023
Other	1,081	-
Prepaid expenses	<u>22,507</u>	<u>2,455</u>
<i>Total current assets</i>	<u>671,853</u>	<u>98,006</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	408,188	58,052
Buildings and improvements	3,805,534	414,968
Furniture and equipment	779,576	740,698
Textbooks	94,956	70,163
Less: accumulated depreciation	<u>(660,674)</u>	<u>(530,615)</u>
<i>Property and equipment, net</i>	<u>4,427,580</u>	<u>753,266</u>
<b>OTHER ASSETS</b>		
Cash - restricted for debt service	679,261	-
Cash - restricted for construction	2,153,345	-
Debt issuance costs, net of amortization	356,028	-
Security deposits	<u>12,990</u>	<u>43,620</u>
<i>Total other assets</i>	<u>3,201,624</u>	<u>43,620</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 8,301,057</u></u></b>	<b><u><u>\$ 894,892</u></u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 58,750	\$ 197,629
Current portion of capital lease obligation	-	34,569
Accounts payable and accrued expenses	<u>192,642</u>	<u>197,174</u>
<i>Total current liabilities</i>	251,392	429,372
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	<u>7,586,250</u>	<u>169,056</u>
<i>Total liabilities</i>	7,837,642	598,428
<b>NET ASSETS, UNRESTRICTED</b>	<u>463,415</u>	<u>296,464</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u><u>\$ 8,301,057</u></u></b>	<b><u><u>\$ 894,892</u></u></b>

See independent auditors' report and accompanying notes to the financial statements

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

**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**

**For the Years Ended June 30, 2016 and 2015**

	<u><b>2016</b></u>	<u><b>2015</b></u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 2,843,945	\$ 2,713,765
Grant revenue	633,159	358,895
Student fees	114,230	112,749
Contributions	1,149	3,885
Interest income	1,078	-
Other income	26,557	30,191
	<u>3,620,118</u>	<u>3,219,485</u>
<i>Total revenue and support</i>		
<b>EXPENSES</b>		
Program services	2,590,545	2,516,455
Management and general	862,622	652,689
	<u>3,453,167</u>	<u>3,169,144</u>
<i>Total expenses</i>		
<b>CHANGE IN NET ASSETS</b>	166,951	50,341
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>296,464</u>	<u>246,123</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 463,415</u>	<u>\$ 296,464</u>

See independent auditors' report and accompanying notes to the financial statements

**DUNELAND CHARTER SCHOOL, INC.**  
**d/b/a DISCOVERY CHARTER SCHOOL**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>			<u>2015</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
<b>FUNCTIONAL EXPENSES</b>						
Salaries and wages	\$ 1,425,506	\$ 232,423	\$ 1,657,929	\$ 1,318,186	\$ 229,025	\$ 1,547,211
Employee benefits	412,486	57,073	469,559	371,268	57,354	428,622
Staff development	4,938	-	4,938	7,136	-	7,136
Professional services	126,504	22,398	148,902	150,410	17,543	167,953
Repairs and maintenance	56,219	-	56,219	7,357	-	7,357
Authorizer oversight fees	-	75,101	75,101	-	65,262	65,262
Academic services	-	170,637	170,637	-	217,101	217,101
Food services	69,736	-	69,736	69,572	-	69,572
Transportation services	73,022	-	73,022	29,180	-	29,180
Travel	4,744	327	5,071	38,426	-	38,426
Equipment	16,339	3,614	19,953	13,459	-	13,459
Classroom, kitchen, and office supplies	39,146	28,531	67,677	28,501	24,335	52,836
Occupancy	212,955	-	212,955	321,452	-	321,452
Information technology	12,756	4,769	17,525	16,520	3,789	20,309
Depreciation	130,060	-	130,060	144,190	-	144,190
Amortization	6,034	-	6,034	-	-	-
Interest	-	229,526	229,526	-	9,107	9,107
Insurance	-	34,058	34,058	-	22,714	22,714
Other	100	4,165	4,265	798	6,459	7,257
<i>Total functional expenses</i>	<u>\$ 2,590,545</u>	<u>\$ 862,622</u>	<u>\$ 3,453,167</u>	<u>\$ 2,516,455</u>	<u>\$ 652,689</u>	<u>\$ 3,169,144</u>

See independent auditors' report and accompanying notes to the financial statements

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

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 166,951	\$ 50,341
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	130,060	144,190
Amortization	6,034	-
Changes in certain assets and liabilities:		
Accounts receivable	(2,050)	13,885
Prepaid expenses	(20,052)	(481)
Security deposits	30,630	-
Accounts payable and accrued expenses	<u>(4,533)</u>	<u>8,726</u>
 <i>Net cash provided by operating activities</i>	 <u>307,040</u>	 <u>216,661</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(3,804,374)</u>	<u>(56,919)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from notes payable	7,645,000	56,527
Principal payments on notes payable	(366,685)	(153,039)
Principal payments on capital lease obligation	(34,569)	(35,959)
Increase in cash restricted for debt service	(679,261)	-
Increase in cash restricted for construction	(2,153,345)	-
Increase in debt issuance costs	<u>(362,061)</u>	<u>-</u>
 <i>Net cash provided by (used in) financing activities</i>	 <u>4,049,079</u>	 <u>(132,471)</u>
<b>NET CHANGE IN CASH</b>	551,745	27,271
<b>CASH, BEGINNING OF YEAR</b>	<u>84,528</u>	<u>57,257</u>
<b>CASH, END OF YEAR</b>	<u><u>\$ 636,273</u></u>	<u><u>\$ 84,528</u></u>
 <b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 229,526	\$ 9,107
Property acquired under a capital lease obligation	-	68,006

See independent auditors' report and accompanying notes to the financial statements

**DUNELAND CHARTER SCHOOL, INC.**  
**d/b/a DISCOVERY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2016 and 2015**

**NOTE 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 serving grades kindergarten through eight and is sponsored by Ball State University.

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 programs. 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 other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and paid in monthly installments in July through June coinciding with 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. Therefore, the School recognizes revenue under these grants in the amounts of costs and expenses at the time they are incurred.

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, 2016 and 2015, no accounting for federal and state income taxes was required to be included in the accompanying financial statements.

Professional accounting 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. Tax years ended after 2012 are open to audit for both federal and state purposes.

**DUNELAND CHARTER SCHOOL, INC.**  
**d/b/a DISCOVERY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2016 and 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Property and Equipment – Purchases of 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 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

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

Debt Issuance Costs – During 2016, the School incurred costs associated with securing financing under the Indiana Finance Authority Education Facilities Revenue Bond. These costs have been deferred and are being amortized over the term of the bond (30 years) using the straight-line method. Amortization expense for the year ended June 30, 2016 is \$6,034.

Reclassifications – Certain amounts in the statement of functional expenses for the year ended June 30, 2015 have been reclassified to conform to the groupings in the 2016 statement of functional expenses. Total expenses for 2015 have not changed.

Subsequent Events – The School evaluated subsequent events through November 4, 2016, 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. No such events were found to have occurred.

**DUNELAND CHARTER SCHOOL, INC.**  
**d/b/a DISCOVERY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2016 and 2015**

**NOTE 2 – NOTES PAYABLE**

Notes payable at June 30, 2016 and 2015 were comprised of:

	<u>2016</u>	<u>2015</u>
Indiana Finance Authority Educational Facilities Revenue Bond, Series 2015A with an original amount of \$7,230,000. The principal amount was reduced by \$760,000 using financing from the State of Indiana. The loan principal is payable in annual installments that increase from \$155,000 to \$580,000 from December 2026 to December 2045. Interest payments are made semi-annually at a rate of 7.25% in accordance with the bond agreement. The bond obligation is secured by land, buildings, and improvements.	\$ 6,470,000	\$ -
Note payable to the Indiana Common School Fund with an original amount of \$1,175,000. The note requires semi-annual payments of \$58,750 plus interest at 1% per annum from January 2017 to July 2026	1,175,000	-
Five separate notes payable to different entities, repaid during 2016 with proceeds from the above notes	-	366,685
	<u>7,645,000</u>	<u>366,685</u>
Less: current portion	<u>(58,750)</u>	<u>(197,629)</u>
Long-term portion	<u>\$ 7,586,250</u>	<u>\$ 169,056</u>

Principal maturities of notes payable are as follows for the years ending June 30:

2017	\$ 58,750
2018	117,500
2019	117,500
2020	117,500
2021	117,500
Thereafter	<u>7,116,250</u>
	<u>\$ 7,645,000</u>

**DUNELAND CHARTER SCHOOL, INC.**  
**d/b/a DISCOVERY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2016 and 2015**

**NOTE 3 – RETIREMENT PLANS**

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing 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 determined annually by the INPRS Board. For the year ended June 30, 2016, the School contributed 7.5% of compensation for eligible teaching personnel to TRF and 7.25% for other employees to PERF. Should the School elect to withdraw from TRF or PERF, it could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF and PERF. As of June 30, 2015 (the latest year reported), TRF and PERF were more than 80% funded. Retirement plan expenses totaled \$132,678 and \$119,992 during the years ended June 30, 2016 and 2015, 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 4 – 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 between program and management services.

**NOTE 5 – 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. Payments under this charter agreement were \$75,101 and \$65,262 for the years ended June 30, 2016 and 2015, respectively. The charter remains in effect until June 30, 2020, and is renewable thereafter by mutual consent.

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 expired on June 30, 2016. Fees incurred under the contract totaled \$170,637 and \$217,101 for the years ended June 30, 2016 and 2015, respectively. Subsequent to June 30, 2016, the School has terminated its contract with American Quality Schools and has begun performing these services internally.

**DUNELAND CHARTER SCHOOL, INC.**  
**d/b/a DISCOVERY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2016 and 2015**

**NOTE 5 – COMMITMENTS, Continued**

In 2016, the School purchased the building it had previously leased, and committed to a construction project on the building with a total cost of \$2,300,000. As of June 30, 2016, approximately \$662,000 in costs on the project had been incurred. The entire project is prefunded, with all necessary cash to complete the project held in escrow at The Huntington National Bank in Indianapolis, Indiana and released directly to the project's contractor upon meeting agreed-upon construction milestones.

**NOTE 6 – RISKS AND UNCERTAINTIES**

The School provides educational instruction 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, 2016 and 2015, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained at Chase Bank, and are insured up to the FDIC insurance limit.

**DUNELAND CHARTER SCHOOL, INC.  
d/b/a DISCOVERY CHARTER SCHOOL  
OTHER REPORT  
For the Year Ended June 30, 2016**

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

Supplemental Audit Report of Duneland Charter School, Inc.  
d/b/a Discovery Charter School

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*.