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STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa


November 14, 2017

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

We have reviewed the report prepared by Duneland Charter School, Inc. d/b/a Discovery Charter School and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Duneland Charter School, Inc. d/b/a Discovery Charter School as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.


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, 2017 and 2016



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Donovan CPAs

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 statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and change in net assets, functional expenses, 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.

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.

www.cpadonovan.com

Westside Office | 5151 E. US Hwy 36, Avon, IN 46123 | 317.745.6411

Northside Office | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

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, 2017 and 2016, its change in its net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DONOVAN

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

November 1, 2017
Indianapolis, Indiana

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

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 438,249	\$ 636,273
Accounts receivable:		
Grants	28,708	11,992
Other	-	1,081
Prepaid expenses	<u>24,992</u>	<u>22,507</u>
<i>Total current assets</i>	<u>491,949</u>	<u>671,853</u>
PROPERTY AND EQUIPMENT		
Land	408,188	408,188
Buildings and improvements	5,843,591	3,805,534
Furniture and equipment	943,328	779,576
Textbooks	94,956	94,956
Less: accumulated depreciation	<u>(918,726)</u>	<u>(660,674)</u>
<i>Property and equipment, net</i>	<u>6,371,337</u>	<u>4,427,580</u>
OTHER ASSETS		
Cash - restricted for debt service	690,067	679,261
Cash - restricted for construction	233,707	2,153,345
Security deposits	<u>12,990</u>	<u>12,990</u>
<i>Total other assets</i>	<u>936,764</u>	<u>2,845,596</u>
TOTAL ASSETS	<u><u>\$ 7,800,050</u></u>	<u><u>\$ 7,945,029</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 117,500	\$ 58,750
Accounts payable and accrued expenses	<u>218,251</u>	<u>192,642</u>
<i>Total current liabilities</i>	<u>335,751</u>	<u>251,392</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	7,468,750	7,586,250
Less: unamortized debt issuance cost	<u>(343,959)</u>	<u>(356,028)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>7,124,791</u>	<u>7,230,222</u>
<i>Total liabilities</i>	7,460,542	7,481,614
NET ASSETS, UNRESTRICTED	<u>339,508</u>	<u>463,415</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,800,050</u></u>	<u><u>\$ 7,945,029</u></u>

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State education support	\$ 2,927,238	\$ 2,843,945
Grant revenue	568,726	633,159
Student fees	211,821	114,230
Contributions	57,722	1,149
Interest income	1,692	1,078
Other income	11,030	26,557
	<u>3,778,229</u>	<u>3,620,118</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	2,876,206	2,590,545
Management and general	1,025,930	862,622
	<u>3,902,136</u>	<u>3,453,167</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	(123,907)	166,951
NET ASSETS, BEGINNING OF YEAR	<u>463,415</u>	<u>296,464</u>
NET ASSETS, END OF YEAR	<u>\$ 339,508</u>	<u>\$ 463,415</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, 2017 and 2016

	<u>2017</u>			<u>2016</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>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 1,519,230	\$ 262,049	\$ 1,781,279	\$ 1,425,506	\$ 232,423	\$ 1,657,929
Employee benefits	438,106	71,535	509,641	412,486	57,073	469,559
Staff development	7,384	-	7,384	4,938	-	4,938
Professional services	93,189	17,142	110,331	69,702	22,398	92,100
Repairs and maintenance	41,677	-	41,677	56,219	-	56,219
Authorizer oversight fees	-	78,152	78,152	-	75,101	75,101
Academic services	-	64,000	64,000	-	170,637	170,637
Food services	131,907	-	131,907	126,538	-	126,538
Transportation services	81,221	-	81,221	73,022	-	73,022
Travel	2,420	-	2,420	4,744	327	5,071
Equipment	24,428	7,493	31,921	16,339	3,614	19,953
Classroom, kitchen, and office supplies	90,673	30,809	121,482	39,146	28,531	67,677
Occupancy	91,262	-	91,262	212,955	-	212,955
Information technology	84,588	17,188	101,776	12,756	4,769	17,525
Depreciation	258,052	-	258,052	130,060	-	130,060
Amortization	12,069	-	12,069	6,034	-	6,034
Interest	-	451,690	451,690	-	229,526	229,526
Insurance	-	16,263	16,263	-	34,058	34,058
Other	-	9,609	9,609	100	4,165	4,265
	<u>\$ 2,876,206</u>	<u>\$ 1,025,930</u>	<u>\$ 3,902,136</u>	<u>\$ 2,590,545</u>	<u>\$ 862,622</u>	<u>\$ 3,453,167</u>
<i>Total functional expenses</i>						

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (123,907)	\$ 166,951
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	258,052	130,060
Amortization	12,069	6,034
Changes in certain assets and liabilities:		
Accounts receivable	(15,635)	(2,050)
Prepaid expenses	(2,485)	(20,052)
Security deposits	-	30,630
Accounts payable and accrued expenses	<u>25,609</u>	<u>(4,533)</u>
 <i>Net cash provided by operating activities</i>	 <u>153,703</u>	 <u>307,040</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(2,201,809)</u>	<u>(3,804,373)</u>
FINANCING ACTIVITIES		
Proceeds from notes payable	-	7,645,000
Principal payments on notes payable	(58,750)	(366,685)
Principal payments on capital lease obligation	-	(34,569)
Increase in cash restricted for debt service	(10,806)	(679,261)
Net (increase)/decrease in cash restricted for construction	1,919,638	(2,153,345)
Increase in debt issuance costs	<u>-</u>	<u>(362,062)</u>
 <i>Net cash provided by financing activities</i>	 <u>1,850,082</u>	 <u>4,049,078</u>
NET CHANGE IN CASH	(198,024)	551,745
CASH, BEGINNING OF YEAR	<u>636,273</u>	<u>84,528</u>
CASH, END OF YEAR	<u><u>\$ 438,249</u></u>	<u><u>\$ 636,273</u></u>
 SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 451,690	\$ 229,526

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, 2017 and 2016

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 approximately 515 students in 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.

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 years ended June 30, 2017 and 2016, 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 2013 are open to audit for both federal and state purposes.

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.

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

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 with a unit cost of less than \$1,000 are generally 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	20 - 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. Total costs incurred were \$362,062. Amortization is provided on a straight-line basis over the term of the bond (30 years). Accumulated amortization as of June 30, 2017 and 2016 was \$18,103 and \$6,034, respectively. Amortization expense for the years ended June 30, 2017 and 2016 was \$12,069 and \$6,034, respectively. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs is presented as a direct deduction from the carrying amount of the related debt liability.

Reclassifications – Certain figures for 2016 that were previously reported have been reclassified for comparative purposes. These reclassifications had no impact on the previously reported change in net assets.

Subsequent Events – The School evaluated subsequent events through November 1, 2017, 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.

NOTE 2 - RESTRICTED CASH

Cash - restricted for debt service is reserved solely for the payment of principal and interest on the bond in the event that other funding is unavailable to meet payment requirements. Of the balance, \$624,412 is to be held until all bond debt is paid.

Cash - restricted for construction represents resources available for the building project and are drawn down as construction is completed.

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
<p>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.</p>	\$ 6,470,000	\$ 6,470,000
<p>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</p>	<u>1,116,250</u> <u>7,586,250</u>	<u>1,175,000</u> <u>7,645,000</u>
<p>Less: current portion</p>	<u>(117,500)</u>	<u>(58,750)</u>
<p>Long-term portion</p>	\$ <u>7,468,750</u>	\$ <u>7,586,250</u>

The Indiana Finance Authority Educational Facilities Revenue Bond agreement contains certain covenants requiring minimum unrestricted cash reserves sufficient to meet 30 days of operating expenses and establishes a minimum debt service coverage ratio (1.10 to 1.00). The School was in compliance with covenants for 2017.

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

2018	\$ 117,500
2019	117,500
2020	117,500
2021	117,500
2022	117,500
Thereafter	<u>6,998,750</u>
	<u>\$ 7,586,250</u>

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 4 - 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, 2017, 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, 2016 (the latest year reported), TRF and PERF were more than 80% funded. Retirement plan expenses totaled \$142,199 and \$132,678 during the years ended June 30, 2017 and 2016, respectively.

The School also maintains a Section 403(b) retirement plan. 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 5 - FUNCTIONAL EXPENSE REPORTING

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program and management services.

NOTE 6 - 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 \$78,152 and \$75,101 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2020, and is renewable thereafter by mutual consent.

NOTE 7 - 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.

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 7 - RISKS AND UNCERTAINTIES, Continued

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, 2017 and 2016, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained at Chase Bank and Huntington 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, 2017

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*.