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December 28, 2017

Charter School Board  
Dugger Union Community Schools Corporation  
7356 E Co Rd 50 S  
Dugger, IN 47848

We have reviewed the report prepared by Dugger Union Community Schools Corporation 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 Dugger Union Community Schools Corporation 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.

In addition to the report presented herein, a Supplemental Audit Report for Dugger Union Community Schools Corporation, 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

**DUGGER UNION COMMUNITY SCHOOLS CORPORATION**

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  
Dugger Union Community Schools Corporation

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

We have audited the accompanying financial statements of Dugger Union Community Schools Corporation, which comprise the statements of financial position as of June 30, 2017 and 2016, 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 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 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 Dugger Union Community Schools Corporation as of June 30, 2017 and 2016, and the changes 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 dark ink that reads "DONOVAN". The signature is written in a cursive style with a large, prominent initial "D".

Indianapolis, Indiana

December 19, 2017

**DUGGER UNION COMMUNITY SCHOOLS CORPORATION**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 945,917	\$ 921,445
Grants receivable	91,484	54,158
Prepaid expenses	<u>12,163</u>	<u>9,560</u>
<i>Total current assets</i>	<u>1,049,564</u>	<u>985,163</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	19,200	19,200
Building and improvements	414,118	169,405
Furniture and equipment	386,011	125,709
Textbooks	175,217	130,408
Vehicles	166,642	166,642
Construction in progress	46,814	-
Less: accumulated depreciation	<u>(221,675)</u>	<u>(41,463)</u>
<i>Property and equipment, net</i>	<u>986,327</u>	<u>569,901</u>
<b>OTHER ASSETS</b>		
Restricted cash	<u>15,000</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,050,891</u></u>	<u><u>\$ 1,555,064</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 107,487	\$ 67,800
Accounts payable and accrued expenses	<u>113,486</u>	<u>116,632</u>
<i>Total current liabilities</i>	220,973	184,432
<b>NOTES PAYABLE, NET OF CURRENT PORTION</b>	<u>725,674</u>	<u>833,870</u>
<i>Total liabilities</i>	946,647	1,018,302
<b>NET ASSETS, UNRESTRICTED</b>	<u>1,104,244</u>	<u>536,762</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 2,050,891</u></u>	<u><u>\$ 1,555,064</u></u>

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

**DUGGER UNION COMMUNITY SCHOOLS CORPORATION**  
**STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 2,024,653	\$ 1,517,076
Grant revenue	624,254	588,926
Student fees	58,439	62,454
Contributions	186,088	62,192
In-kind contributions	49,615	-
Other income	45,988	62,293
	<u>2,989,037</u>	<u>2,292,941</u>
<i>Total revenue and support</i>		
<b>EXPENSES</b>		
Program services	1,734,793	1,263,186
Management and general	686,762	518,189
	<u>2,421,555</u>	<u>1,781,375</u>
<i>Total expenses</i>		
<b>CHANGE IN NET ASSETS</b>	567,482	511,566
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>536,762</u>	<u>25,196</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,104,244</u>	<u>\$ 536,762</u>

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

**DUGGER UNION COMMUNITY SCHOOLS CORPORATION**

**STATEMENTS OF FUNCTIONAL EXPENSES**

**For the Years Ended June 30, 2017 and 2016**

	2017			2016		
	<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	\$ 934,029	\$ 366,313	\$ 1,300,342	\$ 697,921	\$ 265,790	\$ 963,711
Employee benefits	233,933	82,452	316,385	197,741	71,257	268,998
Staff development	27,369	-	27,369	13,058	-	13,058
Professional services	23,239	51,698	74,937	16,130	50,748	66,878
Repairs and maintenance	24,837	-	24,837	27,165	-	27,165
Authorizer oversight fees	-	51,749	51,749	-	41,744	41,744
Food costs	46,744	-	46,744	63,075	-	63,075
Advertising	-	13,839	13,839	-	17,003	17,003
Student transportation	15,710	868	16,578	7,081	984	8,065
Travel	6,381	-	6,381	-	-	-
Classroom, kitchen, and office supplies	37,023	37,397	74,420	31,220	16,868	48,088
Occupancy	130,362	-	130,362	113,130	-	113,130
Depreciation	180,212	-	180,212	40,183	-	40,183
Information technology	22,718	-	22,718	21,221	-	21,221
Interest	-	14,488	14,488	-	5,677	5,677
Insurance	-	52,320	52,320	-	23,709	23,709
Fundraising	-	7,157	7,157	-	14,121	14,121
Other	52,236	8,481	60,717	35,261	10,288	45,549
	<u>\$ 1,734,793</u>	<u>\$ 686,762</u>	<u>\$ 2,421,555</u>	<u>\$ 1,263,186</u>	<u>\$ 518,189</u>	<u>\$ 1,781,375</u>
<i>Total functional expenses</i>						

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

**DUGGER UNION COMMUNITY SCHOOLS CORPORATION**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 567,482	\$ 511,566
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
In-kind contributions	(49,615)	-
Depreciation	180,212	40,183
Donation of school facilities	-	(19,200)
Change in certain assets and liabilities:		
Grants receivable	(37,326)	(54,158)
Prepaid expenses	(2,603)	(4,083)
Increase in restricted cash	(15,000)	-
Accounts payable and accrued expenses	<u>(3,146)</u>	<u>115,001</u>
 <i>Net cash provided by operating activities</i>	 <u>640,004</u>	 <u>589,309</u>
 <b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(547,023)</u>	<u>(413,806)</u>
 <b>FINANCING ACTIVITIES</b>		
Proceeds from notes payable	-	750,000
Principal payments on notes payable	<u>(68,510)</u>	<u>(14,972)</u>
 <i>Net cash provided by (used in) financing activities</i>	 <u>(68,510)</u>	 <u>735,028</u>
 <b>NET CHANGE IN CASH</b>	 24,471	 910,531
 <b>CASH, BEGINNING OF YEAR</b>	 <u>921,445</u>	 <u>10,914</u>
 <b>CASH, END OF YEAR</b>	 <u><u>\$ 945,916</u></u>	 <u><u>\$ 921,445</u></u>
 <b>SUPPLEMENTAL INFORMATION</b>		
Property and equipment obtained through in-kind contribution	\$ 49,615	\$ -
School facilities obtained through a donation	-	19,200
Vehicles financed through note payable	-	166,642
Cash paid for interest	14,488	5,677

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

# DUGGER UNION COMMUNITY SCHOOLS CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – Dugger Union Community Schools Corporation (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 sponsored by Grace College. The School commenced operations with the 2015-16 academic year and serves students in Kindergarten through grade twelve.

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 is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

A significant portion of the School’s revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Contribution Revenue – During the year ended June 30, 2016, Northeast School Corporation donated the School’s facility, including the land and building, to the School. Given the absence of an active market with which to determine the fair value of the donated facility, the School recorded the contribution and related asset at the appraised value of land on which the building resides of \$19,200.

Grants Receivable – Grants receivable relate primarily to activities funded under federal programs 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.

Property and Equipment – Purchases of assets and expenditures that materially increase value or extend useful lives are capitalized and 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	40 years
Furniture and equipment	3 to 7 years
Textbooks	4 to 5 years
Vehicles	5 years

**DUGGER UNION COMMUNITY SCHOOLS CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

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

Restricted Cash – As part of its charter agreement with Grace College (Note 4), the School is required to hold in an escrow account funds to pay for legal, wind down of operations, and audit expenses that would be associated with dissolution should it occur. Per the agreement, the School is required to place a minimum of \$30,000 into the account by December 31<sup>st</sup> of its third year of operations. A minimum of \$5,000 must be put into the account each year.

Taxes on Income – Dugger Union Community Schools Corporation 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. Since the School commenced operations in 2015, all tax years are open to audit for both federal and state purposes.

Reclassifications – Certain figures for 2016 that were previously reported have been reclassified for comparative purposes. These reclassifications had no effect on net assets at June 30, 2016.

Subsequent Events – The School evaluated subsequent events through December 19, 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.

**DUGGER UNION COMMUNITY SCHOOLS CORPORATION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2017 and 2016**

**NOTE 2 - NOTES PAYABLE**

Notes payable are comprised of the following at June 30:

	<u>2017</u>	<u>2016</u>
Note payable to the Indiana State Board of Education, payable \$37,500 semi-annually (January 1 and July 1) plus interest at 1% per annum until July 2026.	\$ 712,500	\$ 750,000
Note payable to TCF National Bank, payable \$18,898 semi-annually (July 1 and December 1) including interest at 4.71% per annum until December 2020. Secured by buses.	<u>120,661</u>	<u>151,670</u>
	833,161	901,670
Less: current portion	<u>(107,487)</u>	<u>(67,800)</u>
Long-term portion	\$ <u>725,674</u>	\$ <u>833,870</u>

The note payable to the State Board of Education is the result of the Common School Funds Charter School Innovation Fund Advancement program. This note is secured by the School's future tuition support payments on the School's basic grant.

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

2018	\$ 107,487
2019	109,040
2020	110,661
2021	93,473
2022	75,000
Thereafter	<u>337,500</u>
	\$ <u>833,161</u>

# **DUGGER UNION COMMUNITY SCHOOLS CORPORATION**

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2017 and 2016**

### **NOTE 3 - RETIREMENT PLAN**

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. Under the plans, the School contributes 7.5% of compensation for electing teaching faculty to TRF and 11.2% of compensation for other electing employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2016 (the latest year reported), both TRF and PERF were more than 80% funded. Retirement plan expense was \$105,826 and \$75,147 for the years ended June 30, 2017 and 2016, respectively.

### **NOTE 4 - COMMITMENTS**

The School operates under a charter granted by Grace College. As the sponsoring organization, Grace College exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Grace College an annual administrative fee equal to 3% of state tuition and complexity grant support received. Expense under this charter agreement was \$51,749 and \$41,744 for the years ended June 30, 2017 and 2016, respectively. The charter remains in effect until June 30, 2018 and is renewable thereafter by mutual consent.

### **NOTE 5 - RISKS AND UNCERTAINTIES**

The School provides educational instruction services to persons primarily residing in Dugger, Indiana and greater Sullivan County, 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. In addition, deposits maintained at First Financial Bank are insured up to the FDIC insurance limit.

### **NOTE 6 - FUNCTIONAL EXPENSE REPORTING**

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

**DUGGER UNION COMMUNITY SCHOOLS CORPORATION**

**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 Dugger Union Community Schools Corporation.

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*.