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November 26, 2018

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, 2017 to June 30, 2018. 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, 2018 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, 2018 and 2017



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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, 2018 and 2017, 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, 2018 and 2017, 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 initial "D".

Indianapolis, Indiana

November 19, 2018

DUGGER UNION COMMUNITY SCHOOLS CORPORATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 991,123	\$ 945,917
Accounts receivable	6,012	-
Grants receivable	98,355	91,484
Prepaid expenses	<u>64,502</u>	<u>12,163</u>
<i>Total current assets</i>	<u>1,159,992</u>	<u>1,049,564</u>
PROPERTY AND EQUIPMENT		
Land	19,200	19,200
Building and improvements	553,047	414,118
Furniture and equipment	437,582	386,011
Textbooks	216,715	175,217
Vehicles	233,792	166,642
Construction in progress	-	46,814
Less: accumulated depreciation	<u>(441,327)</u>	<u>(221,675)</u>
<i>Property and equipment, net</i>	<u>1,019,009</u>	<u>986,327</u>
OTHER ASSETS		
Restricted cash	<u>20,000</u>	<u>15,000</u>
TOTAL ASSETS	<u><u>\$ 2,199,001</u></u>	<u><u>\$ 2,050,891</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 109,035	\$ 107,487
Accounts payable and accrued expenses	<u>88,626</u>	<u>113,486</u>
<i>Total current liabilities</i>	197,661	220,973
NOTES PAYABLE, NET OF CURRENT PORTION	<u>616,639</u>	<u>725,674</u>
<i>Total liabilities</i>	<u>814,300</u>	<u>946,647</u>
NET ASSETS, UNRESTRICTED		
Undesignated	1,071,366	936,078
Invested in restricted cash and property and equipment, net of notes payable	<u>313,335</u>	<u>168,166</u>
<i>Total net assets, unrestricted</i>	<u>1,384,701</u>	<u>1,104,244</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,199,001</u></u>	<u><u>\$ 2,050,891</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUE AND SUPPORT		
State education support	\$ 2,433,501	\$ 2,024,653
Grant revenue	413,364	624,254
Student fees	69,003	58,439
Contributions	72,647	186,088
In-kind contributions	-	49,615
Other income	84,052	45,988
	<hr/>	<hr/>
<i>Total revenue and support</i>	3,072,567	2,989,037
	<hr/>	<hr/>
EXPENSES		
Program services	2,098,337	1,734,793
Management and general	693,773	686,762
	<hr/>	<hr/>
<i>Total expenses</i>	2,792,110	2,421,555
	<hr/>	<hr/>
CHANGE IN NET ASSETS	280,457	567,482
NET ASSETS, BEGINNING OF YEAR	1,104,244	536,762
	<hr/>	<hr/>
NET ASSETS, END OF YEAR	<u>\$ 1,384,701</u>	<u>\$ 1,104,244</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, 2018 and 2017

	2018			2017		
	<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	\$ 1,123,321	\$ 356,650	\$ 1,479,971	\$ 934,029	\$ 366,313	\$ 1,300,342
Employee benefits	286,292	95,721	382,013	233,933	82,452	316,385
Staff development	11,937	-	11,937	27,369	-	27,369
Professional services	40,194	50,235	90,429	23,239	51,698	74,937
Repairs and maintenance	31,546	-	31,546	24,837	-	24,837
Authorizer oversight fees	-	72,480	72,480	-	51,749	51,749
Food costs	62,861	-	62,861	46,744	-	46,744
Advertising	-	8,181	8,181	-	13,839	13,839
Student transportation	26,522	40	26,562	15,710	868	16,578
Travel	7,948	-	7,948	6,381	-	6,381
Classroom, kitchen, and office supplies	55,263	9,828	65,091	37,023	37,397	74,420
Occupancy	152,960	-	152,960	130,362	-	130,362
Depreciation	219,652	-	219,652	180,212	-	180,212
Information technology	25,269	-	25,269	22,718	-	22,718
Interest	-	12,243	12,243	-	14,488	14,488
Insurance	-	49,688	49,688	-	52,320	52,320
Fundraising	-	23,550	23,550	-	7,157	7,157
Other	54,572	15,157	69,729	52,236	8,481	60,717
<i>Total functional expenses</i>	<u>\$ 2,098,337</u>	<u>\$ 693,773</u>	<u>\$ 2,792,110</u>	<u>\$ 1,734,793</u>	<u>\$ 686,762</u>	<u>\$ 2,421,555</u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 280,457	\$ 567,482
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
In-kind contributions	-	(49,615)
Depreciation	219,652	180,212
Change in certain assets and liabilities:		
Accounts receivable	(6,012)	-
Grants receivable	(6,871)	(37,326)
Prepaid expenses	(52,339)	(2,603)
Increase in restricted cash	(5,000)	(15,000)
Accounts payable and accrued expenses	<u>(24,860)</u>	<u>(3,146)</u>
<i>Net cash provided by operating activities</i>	405,027	640,004
INVESTING ACTIVITIES		
Purchases of property and equipment	(252,334)	(547,022)
FINANCING ACTIVITIES		
Principal payments on notes payable	<u>(107,487)</u>	<u>(68,510)</u>
NET CHANGE IN CASH	45,206	24,472
CASH, BEGINNING OF YEAR	<u>945,917</u>	<u>921,445</u>
CASH, END OF YEAR	<u><u>\$ 991,123</u></u>	<u><u>\$ 945,917</u></u>
SUPPLEMENTAL INFORMATION		
Property and equipment obtained through in-kind contribution	\$ -	\$ 49,615
Cash paid for interest	12,243	14,488

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, 2018 and 2017

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 provides educational instruction to approximately 360 students in grades kindergarten through 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.

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:

Building 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, 2018 and 2017

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, 2018.

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, 2018 and 2017, 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 ending after 2014 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 19, 2018, 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 - NOTES PAYABLE

Notes payable are comprised of the following at June 30:

	<u>2018</u>	<u>2017</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.	\$ 637,500	\$ 712,500
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.	88,174	120,661
	<u>725,674</u>	<u>833,161</u>
Less: current portion	<u>(109,035)</u>	<u>(107,487)</u>
Long-term portion	\$ <u>616,639</u>	\$ <u>725,674</u>

DUGGER UNION COMMUNITY SCHOOLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

NOTE 2 - NOTES PAYABLE, Continued

The note payable to the Indiana 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:

2019		\$ 109,035
2020		110,666
2021		93,473
2022		75,000
2023		75,000
Thereafter		<u>262,500</u>
		<u>\$ 725,674</u>

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, 2017 (the latest year reported), both TRF and PERF were more than 80% funded. Retirement plan expense was \$130,711 and \$105,826 for the years ended June 30, 2018 and 2017, 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 \$72,480 and \$51,749 for the years ended June 30, 2018 and 2017, respectively. The charter remains in effect until May 31, 2022 and is renewable thereafter by mutual consent.

DUGGER UNION COMMUNITY SCHOOLS CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and 2017

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 statements of activities and change in net assets. Accordingly, certain expenses have been allocated between program services and management and general expenses.

DUGGER UNION COMMUNITY SCHOOLS CORPORATION
OTHER REPORT
For the Year Ended June 30, 2018

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*.