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November 28, 2018


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



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Donovan CPAs

Independent Auditors' Report

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, which comprise the statements of financial position as of June 30, 2018 and 2017, 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 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 Duneland Charter School, Inc. d/b/a Discovery Charter School 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, prominent initial "D".

November 16, 2018
Indianapolis, Indiana

DUNELAND CHARTER SCHOOL, INC.
d/b/a DISCOVERY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 556,654	\$ 438,249
Grants receivable	5,165	28,708
Prepaid expenses	31,589	24,992
<i>Total current assets</i>	<u>593,408</u>	<u>491,949</u>
PROPERTY AND EQUIPMENT		
Land	408,188	408,188
Buildings and improvements	5,918,450	5,843,591
Furniture and equipment	1,135,483	943,328
Textbooks	94,956	94,956
Less: accumulated depreciation	<u>(1,200,626)</u>	<u>(918,726)</u>
<i>Property and equipment, net</i>	<u>6,356,451</u>	<u>6,371,337</u>
OTHER ASSETS		
Cash - restricted for debt service	629,752	690,067
Cash - restricted for construction	5,553	233,707
Security deposits	12,990	12,990
<i>Total other assets</i>	<u>648,295</u>	<u>936,764</u>
TOTAL ASSETS	<u><u>\$ 7,598,154</u></u>	<u><u>\$ 7,800,050</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 117,500	\$ 117,500
Accounts payable and accrued expenses	244,852	218,251
<i>Total current liabilities</i>	<u>362,352</u>	<u>335,751</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	7,351,250	7,468,750
Less: unamortized debt issuance cost	<u>(331,890)</u>	<u>(343,959)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>7,019,360</u>	<u>7,124,791</u>
<i>Total liabilities</i>	7,381,712	7,460,542
NET ASSETS, UNRESTRICTED	<u>216,442</u>	<u>339,508</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,598,154</u></u>	<u><u>\$ 7,800,050</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUE AND SUPPORT		
State education support	\$ 3,179,112	\$ 2,927,238
Grant revenue	537,371	568,726
Student fees	211,908	211,821
Contributions	59,684	57,722
Interest income	947	1,692
Other income	9,093	11,030
	<u>3,998,115</u>	<u>3,778,229</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	3,000,089	2,876,206
Management and general	1,121,092	1,025,930
	<u>4,121,181</u>	<u>3,902,136</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS	(123,066)	(123,907)
NET ASSETS, BEGINNING OF YEAR	<u>339,508</u>	<u>463,415</u>
NET ASSETS, END OF YEAR	<u>\$ 216,442</u>	<u>\$ 339,508</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, 2018 and 2017

	<u>2018</u>			<u>2017</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	\$ 1,574,073	\$ 286,712	\$ 1,860,785	\$ 1,519,230	\$ 262,049	\$ 1,781,279
Employee benefits	415,437	70,463	485,900	438,106	71,535	509,641
Staff development	7,281	-	7,281	7,384	-	7,384
Professional services	128,996	6,599	135,595	93,189	17,142	110,331
Repairs and maintenance	53,657	-	53,657	41,677	-	41,677
Authorizer oversight fees	-	84,315	84,315	-	78,152	78,152
Academic services	-	75,000	75,000	-	64,000	64,000
Food services	136,133	-	136,133	131,907	-	131,907
Transportation services	99,728	-	99,728	81,221	-	81,221
Travel	11,086	-	11,086	2,420	-	2,420
Equipment	21,819	8,347	30,166	24,428	7,493	31,921
Classroom, kitchen, and office supplies	81,825	23,397	105,222	90,673	30,809	121,482
Occupancy	95,273	-	95,273	91,262	-	91,262
Information technology	78,542	19,377	97,919	84,588	17,188	101,776
Depreciation	281,900	-	281,900	258,052	-	258,052
Amortization	12,069	-	12,069	12,069	-	12,069
Interest	152	508,080	508,232	-	451,690	451,690
Insurance	-	18,072	18,072	-	16,263	16,263
Other	2,118	20,730	22,848	-	9,609	9,609
<i>Total functional expenses</i>	<u>\$ 3,000,089</u>	<u>\$ 1,121,092</u>	<u>\$ 4,121,181</u>	<u>\$ 2,876,206</u>	<u>\$ 1,025,930</u>	<u>\$ 3,902,136</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (123,066)	\$ (123,907)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	281,900	258,052
Amortization	12,069	12,069
Changes in certain assets and liabilities:		
Grants receivable	23,543	(15,635)
Prepaid expenses	(6,597)	(2,485)
Accounts payable and accrued expenses	<u>26,601</u>	<u>25,609</u>
 <i>Net cash provided by operating activities</i>	 <u>214,450</u>	 <u>153,703</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(267,014)</u>	<u>(2,201,809)</u>
FINANCING ACTIVITIES		
Principal payments on notes payable	(117,500)	(58,750)
(Increase)/decrease in cash restricted for debt service	60,315	(10,806)
Decrease in cash restricted for construction	<u>228,154</u>	<u>1,919,638</u>
 <i>Net cash provided by financing activities</i>	 <u>170,969</u>	 <u>1,850,082</u>
NET CHANGE IN CASH	118,405	(198,024)
CASH, BEGINNING OF YEAR	<u>438,249</u>	<u>636,273</u>
CASH, END OF YEAR	<u>\$ 556,654</u>	<u>\$ 438,249</u>
 SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 482,582	\$ 477,340

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, 2018 and 2017

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 520 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.

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

Cash and Cash Equivalents – Cash equivalents include money market funds and time deposits with maturities of three months or less at the date of purchase.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Taxes on Income – The School has received a determination from the U.S. Department of Treasury 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 ended after 2014 are open to audit for both federal and state purposes.

Debt Issuance Costs – The School incurred costs totaling \$362,062 associated with securing financing under the Indiana Finance Authority Education Facilities Revenue Bond. Amortization is provided on a straight-line basis over the 30-year term of the bond. Accumulated amortization as of June 30, 2018 and 2017 was \$30,172 and \$18,103, respectively. Amortization expense was \$12,069 for both years ended June 30, 2018 and 2017. 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.

Subsequent Events – The School evaluated subsequent events through November 16, 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. No such events were noted.

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 total balance, approximately \$600,000 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, 2018 and 2017

NOTE 3 - NOTES PAYABLE

Notes payable consisted of the following as of June 30:

	<u>2018</u>	<u>2017</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>998,750</u> 7,468,750	<u>1,116,250</u> 7,586,250
<p>Less: current portion</p>	<u>(117,500)</u>	<u>(117,500)</u>
<p>Long-term portion</p>	\$ <u>7,351,250</u>	\$ <u>7,468,750</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 of 1.10 to 1. The School was in compliance with covenants for 2018 and 2017.

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

2019	\$ 117,500
2020	117,500
2021	117,500
2022	117,500
2023	117,500
Thereafter	<u>6,881,250</u>
	<u>\$ 7,468,750</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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, 2018, the School contributed 7.5% of compensation for eligible teaching personnel to TRF and 11.2% 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, 2017 (the latest year reported), TRF and PERF were more than 80% funded. Retirement plan expenses totaled \$203,082 and \$142,199 during the years ended June 30, 2018 and 2017, 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 services and management and general expenses.

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 \$84,315 and \$78,152 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017

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, 2018 and 2017, 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, 2018**

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*.