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November 13, 2019


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

We have reviewed the audit report of Duneland Charter School, Inc. d/b/a Discovery Charter School which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2018 to June 30, 2019. 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, 2019 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 the audit report in accordance with 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, 2019 and 2018



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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, 2019 and 2018, 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, 2019 and 2018, 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 letters are cursive and somewhat stylized, with the "D" being particularly large and the "V" having a long tail.

November 7, 2019  
Indianapolis, Indiana

**DUNELAND CHARTER SCHOOL, INC.  
d/b/a DISCOVERY CHARTER SCHOOL  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 480,143	\$ 556,654
Grants receivable	11,587	5,165
Student fees receivable	12,329	-
Prepaid expenses	42,266	31,589
<i>Total current assets</i>	<u>546,325</u>	<u>593,408</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	408,188	408,188
Buildings and improvements	5,925,278	5,918,450
Furniture and equipment	1,215,055	1,135,483
Textbooks	94,956	94,956
Less: accumulated depreciation	<u>(1,490,665)</u>	<u>(1,200,626)</u>
<i>Property and equipment, net</i>	<u>6,152,812</u>	<u>6,356,451</u>
<b>OTHER ASSETS</b>		
Cash and equivalents - restricted for debt service	633,158	629,752
Cash and equivalents - prepaid interest	5,656	5,553
Security deposits	12,990	12,990
<i>Total other assets</i>	<u>651,804</u>	<u>648,295</u>
<b>TOTAL ASSETS</b>	<u>\$ 7,350,941</u>	<u>\$ 7,598,154</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 117,500	\$ 117,500
Accounts payable and accrued expenses	248,044	244,852
<i>Total current liabilities</i>	<u>365,544</u>	<u>362,352</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	7,233,750	7,351,250
Less: unamortized debt issuance cost	<u>(319,821)</u>	<u>(331,890)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>6,913,929</u>	<u>7,019,360</u>
<i>Total liabilities</i>	7,279,473	7,381,712
<b>NET ASSETS, WITHOUT DONOR RESTRICTIONS</b>	<u>71,468</u>	<u>216,442</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 7,350,941</u>	<u>\$ 7,598,154</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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 3,230,658	\$ 3,179,112
Grant revenue	576,100	537,371
Student fees	227,758	211,908
Contributions	52,316	59,684
Interest income	4,901	947
Other income	<u>17,711</u>	<u>9,093</u>
<i>Total revenue and support</i>	<u>4,109,444</u>	<u>3,998,115</u>
<b>EXPENSES</b>		
Program services	3,146,964	3,000,089
Management and general	<u>1,107,454</u>	<u>1,121,092</u>
<i>Total expenses</i>	<u>4,254,418</u>	<u>4,121,181</u>
<b>CHANGE IN NET ASSETS</b>	(144,974)	(123,066)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>216,442</u>	<u>339,508</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 71,468</u>	<u>\$ 216,442</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, 2019 and 2018**

	<u>2019</u>			<u>2018</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>
Salaries and wages	\$ 1,666,305	\$ 302,465	\$ 1,968,770	\$ 1,574,073	\$ 286,712	\$ 1,860,785
Employee benefits	434,411	75,102	509,513	415,437	70,463	485,900
Staff development	5,720	-	5,720	7,281	-	7,281
Professional services	180,563	11,629	192,192	175,502	6,599	182,101
Repairs and maintenance	49,358	-	49,358	53,657	-	53,657
Authorizer oversight fees	-	85,739	85,739	-	84,315	84,315
Academic services	-	75,000	75,000	-	75,000	75,000
Food services	127,590	-	127,590	136,133	-	136,133
Transportation services	111,734	-	111,734	99,728	-	99,728
Travel	12,490	-	12,490	11,086	-	11,086
Equipment	3,918	8,369	12,287	21,819	8,347	30,166
Classroom, kitchen, and office supplies	113,198	9,004	122,202	81,825	23,397	105,222
Occupancy	94,741	-	94,741	95,273	-	95,273
Information technology	42,530	17,715	60,245	32,036	19,377	51,413
Depreciation	290,039	-	290,039	281,900	-	281,900
Amortization	12,069	-	12,069	12,069	-	12,069
Interest	853	478,769	479,622	152	508,080	508,232
Insurance	-	19,616	19,616	-	18,072	18,072
Other	1,445	24,046	25,491	2,118	20,730	22,848
<i>Total functional expenses</i>	<u>\$ 3,146,964</u>	<u>\$ 1,107,454</u>	<u>\$ 4,254,418</u>	<u>\$ 3,000,089</u>	<u>\$ 1,121,092</u>	<u>\$ 4,121,181</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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (144,974)	\$ (123,066)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	290,039	281,900
Amortization	12,069	12,069
Changes in certain assets and liabilities:		
Grants receivable	(6,422)	23,543
Student fees receivable	(12,329)	-
Prepaid expenses	(10,677)	(6,597)
Accounts payable and accrued expenses	<u>3,192</u>	<u>26,601</u>
 <i>Net cash provided by operating activities</i>	 130,898	 214,450
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(86,400)	(267,014)
<b>FINANCING ACTIVITIES</b>		
Principal payments on notes payable	<u>(117,500)</u>	<u>(117,500)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(73,002)	(170,064)
<b>CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,191,959</u>	<u>1,362,023</u>
<b>CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,118,957</u>	<u>\$ 1,191,959</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>		
Cash and cash equivalents - unrestricted	\$ 480,143	\$ 556,654
Cash and cash equivalents - restricted for debt service	633,158	629,752
Cash and cash equivalents - prepaid interest	<u>5,656</u>	<u>5,553</u>
 <i>Total cash and cash equivalents, end of year</i>	 <u>\$ 1,118,957</u>	 <u>\$ 1,191,959</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 479,622	\$ 482,582

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, 2019 and 2018**

**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 530 students in grades kindergarten through eight and is sponsored by Ball State University.

Financial Statement Presentation – Effective with the June 30, 2019 year end, the School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding the liquidity of financial assets. ASU 2016-14 must be applied on a retroactive basis, therefore the net assets as of and for the year ended June 30, 2018 have been restated to comply with ASU 2016-14.

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.

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.

Accounts 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. Student fees receivable relate to unpaid student fees from the 2018-2019 school year. The School believes that all balances will be collected.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2019 and 2018**

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

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 – 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, 2019 and 2018 was \$42,241 and \$30,172, respectively. Amortization expense was \$12,069 for both years ended June 30, 2019 and 2018. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability.

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, 2019 and 2018, 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 2015 are open to audit for both federal and state purposes.

Subsequent Events – The School evaluated subsequent events through November 7, 2019, 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 total balance, approximately \$600,000 is to be held until all bond debt is paid.

*Cash – prepaid interest* represents escrowed prepayments of interest due on the bond in future years.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2019 and 2018**

**NOTE 3 - NOTES PAYABLE**

Notes payable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</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	\$ 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	<u>881,250</u> 7,351,250	<u>998,750</u> 7,468,750
Less: current portion	<u>(117,500)</u>	<u>(117,500)</u>
Long-term portion	<u>\$ 7,233,750</u>	<u>\$ 7,351,250</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 of 1.10 to 1. The School was in compliance with covenants for 2019 and 2018.

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

2020	\$ 117,500
2021	117,500
2022	117,500
2023	117,500
2024	117,500
Thereafter	<u>6,763,750</u>
	<u>\$ 7,351,250</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2019 and 2018**

**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, 2019, 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, 2018 (the latest year reported), TRF and PERF were approximately 80% funded.

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.

Retirement plan expenses totaled \$154,784 and \$149,263 during the years ended June 30, 2019 and 2018, respectively.

**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 \$85,739 and \$84,315 for the years ended June 30, 2019 and 2018, respectively. The charter remains in effect until June 30, 2020 and is renewable thereafter by mutual consent.

**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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2019 and 2018**

**NOTE 6 - RISKS AND UNCERTAINTIES, Continued**

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2019 and 2018, substantially all of the receivable balance was due from the State of Indiana. In addition, bank deposits are maintained at Chase Bank, BMO Harris and Huntington Bank, and are insured up to the FDIC insurance limit.

**NOTE 7 - LIQUIDITY**

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the statement of financial position. The School's financial assets include cash and grants and student fees receivable.

Financial assets, June 30, 2019	\$	1,142,873
Less those unavailable for general expenditures within one year, due to:		
Cash and cash equivalents restricted for debt service		(633,158)
Cash and cash equivalents restricted for construction		<u>(5,656)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>504,059</u>

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**NOTE 8 - 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. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

**DUNELAND CHARTER SCHOOL, INC.**  
**d/b/a DISCOVERY CHARTER SCHOOL**  
**OTHER REPORT**  
**For the Year Ended June 30, 2019**

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*.