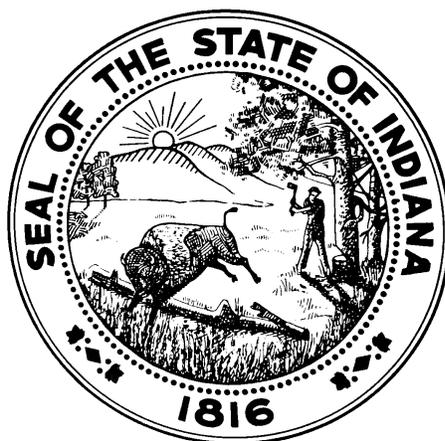


STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
CHARTER SCHOOL OF THE DUNES
LAKE COUNTY, INDIANA
July 1, 2006 to June 30, 2008



FILED
07/29/2009

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Senior Vice President of School Finance	Roger Gray	07-01-06 to 06-30-09
Chief Administrative Officer	William Ignatowski Deborah Conkle	07-01-06 to 06-30-08 07-01-08 to 06-30-09
President of the School Board	Nancy Knightly	07-01-06 to 06-30-09



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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CHARTER SCHOOL OF THE DUNES, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities and each major fund of the Charter School of the Dunes (School Corporation), as of and for the years ended June 30, 2007 and 2008, which collectively comprise the School Corporation's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities and each major fund of the School Corporation as of June 30, 2007 and 2008, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated July 14, 2009, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Combining Schedule, as listed in the Table of Contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedule, as listed in the Table of Contents, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

July 14, 2009



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CHARTER SCHOOL OF THE DUNES, LAKE COUNTY, INDIANA

We have audited the financial statements of the governmental activities and each major fund of the Charter School of the Dunes (School Corporation), as of and for the years ended June 30, 2007 and 2008, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated July 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in item 2008-1 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2008-1.

The School Corporation's response to the findings identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, the School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 14, 2009

CHARTER SCHOOL OF THE DUNES
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
Governmental activities:				
Instruction	\$ 1,822,062	\$ -	\$ 63,055	\$ (1,759,007)
Support services	2,151,611	26,052	189,774	(1,935,785)
Community services	39,654	-	-	(39,654)
Debt service	554,895	-	-	(554,895)
Total government	<u>\$ 4,568,222</u>	<u>\$ 26,052</u>	<u>\$ 252,829</u>	<u>(4,289,341)</u>
General receipts:				
Property taxes				1,288,425
Other local sources				10,428
State aid				2,576,656
Grants and contributions not restricted to specific programs				880,034
Investment earnings				<u>17,674</u>
Total general receipts				<u>4,773,217</u>
Change in net assets				483,876
Net assets - beginning				<u>17,962</u>
Net assets - ending				<u>\$ 501,838</u>
<u>Assets</u>				
Cash and investments				<u>\$ 501,838</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 501,838</u>

The notes to the financial statements are an integral part of this statement.

CHARTER SCHOOL OF THE DUNES
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Disbursements</u>	<u>Program Receipts</u>		<u>Net (Disbursement) Receipts and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Totals</u>
Governmental activities:				
Instruction	\$ 1,716,733	\$ -	\$ 50,163	\$ (1,666,570)
Support services	2,172,937	11,585	162,282	(1,999,070)
Community services	30,170	-	-	(30,170)
Nonprogrammed charges	138,252	-	-	(138,252)
Debt service	479,929	-	-	(479,929)
	<u>\$ 4,538,021</u>	<u>\$ 11,585</u>	<u>\$ 212,445</u>	<u>(4,313,991)</u>
General receipts:				
Property taxes				1,292,456
Other local sources				12,661
State aid				2,361,519
Grants and contributions not restricted to specific programs				451,119
Sale of property, adjustments, and refunds				5,609
Investment earnings				10,044
				<u>4,133,408</u>
Total general receipts				<u>4,133,408</u>
Change in net assets				(180,583)
Net assets - beginning				<u>501,838</u>
Net assets - ending				<u>\$ 321,255</u>
<u>Assets</u>				
Cash and investments				<u>\$ 321,255</u>
<u>Net Assets</u>				
Unrestricted				<u>\$ 321,255</u>

The notes to the financial statements are an integral part of this statement.

CHARTER SCHOOL OF THE DUNES
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2007

	<u>General</u>	<u>Other</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 1,316,487	\$ 26,092	\$ 1,342,579
State sources	2,680,257	780	2,681,037
Federal sources	880,034	148,448	1,028,482
Interfund loans	<u>-</u>	<u>41,413</u>	<u>41,413</u>
 Total receipts	 <u>4,876,778</u>	 <u>216,733</u>	 <u>5,093,511</u>
Disbursements:			
Current:			
Instruction	1,820,971	1,091	1,822,062
Support services	1,903,143	248,468	2,151,611
Community services	4,925	34,729	39,654
Debt services	554,895	-	554,895
Interfund loans	<u>41,413</u>	<u>-</u>	<u>41,413</u>
 Total disbursements	 <u>4,325,347</u>	 <u>284,288</u>	 <u>4,609,635</u>
Excess (deficiency) of receipts over disbursements	<u>551,431</u>	<u>(67,555)</u>	<u>483,876</u>
Other financing sources (uses):			
Transfers in	14,673	93,081	107,754
Transfers out	<u>(93,081)</u>	<u>(14,673)</u>	<u>(107,754)</u>
 Total other financing sources (uses)	 <u>(78,408)</u>	 <u>78,408</u>	 <u>-</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	473,023	10,853	483,876
Cash and investments - beginning	<u>17,724</u>	<u>238</u>	<u>17,962</u>
Cash and investments - ending	<u>\$ 490,747</u>	<u>\$ 11,091</u>	<u>\$ 501,838</u>
 <u>Cash and Investment Assets - Ending</u>			
Cash and investments	<u>\$ 490,747</u>	<u>\$ 11,091</u>	<u>\$ 501,838</u>
 <u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	<u>\$ 490,747</u>	<u>\$ 11,091</u>	<u>\$ 501,838</u>

The notes to the financial statements are an integral part of this statement.

CHARTER SCHOOL OF THE DUNES
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	General	Grants	Capital Projects	Other	Totals
Receipts:					
Local sources	\$ 1,307,599	\$ -	\$ -	\$ 19,147	\$ 1,326,746
State sources	2,433,835	-	-	890	2,434,725
Federal sources	-	450,155	-	140,203	590,358
Sale of property, adjustments and refunds	5,609	-	-	-	5,609
Interfund loans	-	110,805	1,181	36,205	148,191
	<u>3,747,043</u>	<u>560,960</u>	<u>1,181</u>	<u>196,445</u>	<u>4,505,629</u>
Total receipts					
Disbursements:					
Current:					
Instruction	1,368,961	347,772	-	-	1,716,733
Support services	1,822,746	154,595	1,181	194,415	2,172,937
Community services	-	-	-	30,170	30,170
Nonprogrammed charges	136,406	1,846	-	-	138,252
Debt services	479,929	-	-	-	479,929
Interfund loans	148,191	-	-	-	148,191
	<u>3,956,233</u>	<u>504,213</u>	<u>1,181</u>	<u>224,585</u>	<u>4,686,212</u>
Total disbursements					
Excess (deficiency) of receipts over disbursements	<u>(209,190)</u>	<u>56,747</u>	<u>-</u>	<u>(28,140)</u>	<u>(180,583)</u>
Other financing sources (uses):					
Transfers in	89,927	-	-	59,113	149,040
Transfers out	(59,113)	(56,747)	-	(33,180)	(149,040)
	<u>30,814</u>	<u>(56,747)</u>	<u>-</u>	<u>25,933</u>	<u>-</u>
Total other financing sources (uses)					
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(178,376)	-	-	(2,207)	(180,583)
Cash and investments - beginning	490,747	-	-	11,091	501,838
Cash and investments - ending	<u>\$ 312,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,884</u>	<u>\$ 321,255</u>
<u>Cash and Investment Assets - Ending</u>					
Cash and investments	<u>\$ 312,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,884</u>	<u>\$ 321,255</u>
<u>Cash and Investment Fund Balance - Ending</u>					
Unrestricted	<u>\$ 312,371</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,884</u>	<u>\$ 321,255</u>

The notes to the financial statements are an integral part of this statement.

CHARTER SCHOOL OF THE DUNES
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Charter School of the Dunes

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The grants fund is used to account for the financial activity pertaining to grant awards.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

CHARTER SCHOOL OF THE DUNES
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Measurement Focus and Basis of Accounting

The government-wide and governmental financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

3. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

4. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

CHARTER SCHOOL OF THE DUNES
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

CHARTER SCHOOL OF THE DUNES
NOTES TO FINANCIAL STATEMENTS
(Continued)

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis. The effects of interfund services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

II. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision.

The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2007 and 2008, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2007</u>	<u>2008</u>
General Fund	Other governmental funds	\$ 93,081	\$ 59,113
Other governmental funds	General Fund	<u>14,673</u>	<u>89,927</u>
Totals		<u>\$ 107,754</u>	<u>\$ 149,040</u>

The School Corporation typically uses transfers for cash flow purposes as provided by various statutory provisions.

III. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

CHARTER SCHOOL OF THE DUNES
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Subsequent Event

The second installment of the 2007 pay 2008 property taxes was billed in January 2009. Final distribution of the 2007 pay 2008 property taxes was completed March 26, 2009.

In addition, due to delays caused by trending of assessments, the assessed valuations of Lake County have not been finalized. Therefore, the 2008 pay 2009 property tax rates and levies, as well as related budget orders for 2009, have not yet been established as of July 14, 2009.

CHARTER SCHOOL OF THE DUNES
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2007

	<u>School Lunch</u>	<u>OASIS</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 6,290	\$ 19,802	\$ 26,092
State sources	780	-	780
Federal sources	148,448	-	148,448
Interfund loans	41,413	-	41,413
	<u>196,931</u>	<u>19,802</u>	<u>216,733</u>
Total receipts			
Disbursements:			
Current:			
Instruction	-	1,091	1,091
Support services	248,468	-	248,468
Community services	-	34,729	34,729
	<u>248,468</u>	<u>35,820</u>	<u>284,288</u>
Total disbursements			
Excess (deficiency) of receipts over disbursements	<u>(51,537)</u>	<u>(16,018)</u>	<u>(67,555)</u>
Other financing sources (uses):			
Transfers in	77,063	16,018	93,081
Transfers out	<u>(14,673)</u>	<u>-</u>	<u>(14,673)</u>
Total other financing sources (uses)	<u>62,390</u>	<u>16,018</u>	<u>78,408</u>
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	10,853	-	10,853
Cash and investments - beginning	<u>238</u>	<u>-</u>	<u>238</u>
Cash and investments - ending	<u>\$ 11,091</u>	<u>\$ -</u>	<u>\$ 11,091</u>
<u>Cash and Investment Assets - Ending</u>			
Cash and investments	<u>\$ 11,091</u>	<u>\$ -</u>	<u>\$ 11,091</u>
<u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	<u>\$ 11,091</u>	<u>\$ -</u>	<u>\$ 11,091</u>

CHARTER SCHOOL OF THE DUNES
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND RECEIPTS,
 DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2008

	<u>School Lunch</u>	<u>OASIS</u>	<u>Totals</u>
Receipts:			
Local sources	\$ 5,476	\$ 13,671	\$ 19,147
State sources	890	-	890
Federal sources	140,203	-	140,203
Interfund loans	36,205	-	36,205
	<u>182,774</u>	<u>13,671</u>	<u>196,445</u>
Total receipts			
Disbursements:			
Current:			
Support services	194,415	-	194,415
Community services	-	30,170	30,170
	<u>194,415</u>	<u>30,170</u>	<u>224,585</u>
Total disbursements			
Excess (deficiency) of receipts over disbursements	<u>(11,641)</u>	<u>(16,499)</u>	<u>(28,140)</u>
Other financing sources (uses):			
Transfers in	42,614	16,499	59,113
Transfers out	(33,180)	-	(33,180)
	<u>9,434</u>	<u>16,499</u>	<u>25,933</u>
Total other financing sources (uses)			
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(2,207)	-	(2,207)
Cash and investments - beginning	<u>11,091</u>	<u>-</u>	<u>11,091</u>
Cash and investments - ending	<u>\$ 8,884</u>	<u>\$ -</u>	<u>\$ 8,884</u>
<u>Cash and Investment Assets - Ending</u>			
Cash and investments	<u>\$ 8,884</u>	<u>\$ -</u>	<u>\$ 8,884</u>
<u>Cash and Investment Fund Balance - Ending</u>			
Unrestricted	<u>\$ 8,884</u>	<u>\$ -</u>	<u>\$ 8,884</u>

CHARTER SCHOOL OF THE DUNES
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS
June 30, 2008

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Buildings	\$ 1,192,847
Machinery and equipment	<u>588,516</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 1,781,363</u>

CHARTER SCHOOL OF THE DUNES
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2008

The School Corporation has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Security Camera Lease	\$ 3,061	\$ 3,095
Notes and loans payable:		
Indiana Common School Loan	1,496,864	147,045
Mercantile Construction Loan	<u>149,818</u>	<u>152,903</u>
Total governmental activities debt	<u>\$ 1,649,743</u>	<u>\$ 303,043</u>

CHARTER SCHOOL OF THE DUNES
OTHER REPORT

The audit report presented herein was prepared in addition to the other official report listed below:

Special Investigation Report of Charter School of the Dunes

CHARTER SCHOOL OF THE DUNES
AUDIT RESULTS AND COMMENTS

PRESCRIBED FORMS

The following prescribed forms were not in use:

- (1) Accounts Payable Voucher (Form 523).
- (2) Purchase Order (Form 98).
- (3) Duplicate Checks (Form 509).
- (4) Ledger of Appropriations, Allotments, Encumbrances, Disbursements and Balances (Form 512).
- (5) Capital Asset Ledger (Form 369).
- (6) Payroll Schedule and Voucher (Form 99).
- (7) Employee Service Records (Form 99A).

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

RECEIPTS INTERNAL CONTROLS

The following internal control deficiencies were noted:

- (1) Prescribed receipts (Form 517) were not used in the school year 2006-2007.
- (2) A significant number of receipts did not indicate whether cash or check was received.
- (3) Receipts appeared to be altered.
- (4) Original receipts were not retained for voided receipts.
- (5) Receipts were not issued in sequential order because numerous receipt books were in use at one time.
- (6) Specific receipts could not be traced to specific deposits.
- (7) Multiple employees had access to the collections.
- (8) Collections were deposited only once or twice a month.
- (9) Computer software for school lunch management was not reconciled with daily lunch collections.

CHARTER SCHOOL OF THE DUNES
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 7)

IC 5-13-6-1(c) states in part: ". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance . . ."

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Federal grants received by the School Corporation, other than the school lunch reimbursements, were comingled into one fund, Grants Fund. Subaccounts were established within the fund; however, we were unable to identify the cash balances related to individual grants.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

A fund constitutes a complete accounting entity and all financial transactions, both receipts and disbursements, are to be recorded in the fund to which they pertain. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 3)

SCHOOL LUNCH ELIGIBILITY VERIFICATION

According to the guidelines governing the school lunch program, the School Corporation is required to obtain verification of eligibility for 3% of the applications for free and reduced lunch. Documentation of verification was not presented for audit.

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Officials should request a written position from the Indiana Department of Education stating whether the corrective action taken was sufficient or if additional verifications need to be performed when high incidences of errors in test sample verifications are noted. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

CHARTER SCHOOL OF THE DUNES
AUDIT RESULTS AND COMMENTS
(Continued)

EXTRA-CURRICULAR ACCOUNT

The School Corporation does not maintain an extra-curricular account. Extra-curricular collections are deposited into a bank account entitled "trust and agency." Receipts were not written for these collections and a ledger was not maintained. Therefore, the bank account was never reconciled.

Activity or activities as used herein has reference to conducting any athletic, social, class, or other school function and the collection, custody and disbursement of any money in connection therewith, other than functions conducted solely by any organization of parents and teachers, which does not include public money. The collection, custody, and disbursement of the money for an activity are represented in the accounting records by a fund and the control account for all of the activity funds is designated as the "School Extra-Curricular Account." (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

IC 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

Telephone: (317) 232-2513
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CHARTER SCHOOL OF THE DUNES, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the Charter School of the Dunes (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2007 and 2008. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2007 and 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2008-2 and 2008-3.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School Corporation's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a School Corporation's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in items 2008-2 and 2008-3 of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The School Corporation's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the School Corporation's management, the School Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 14, 2009

CHARTER SCHOOL OF THE DUNES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2007 and 2008

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Total Federal Awards Expended 06-30-07	Total Federal Awards Expended 06-30-08
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	\$ 14,941	\$ 14,782
National School Lunch Program	10.555	122,070	125,657
Child and Adult Care Food Program	10.558	<u>2,689</u>	<u>1,977</u>
Total for federal grantor agency		<u>139,700</u>	<u>142,416</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-Through Indiana Department of Education			
Title I Grants to Local Educational Agencies	84.010	<u>256,295</u>	<u>319,411</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	<u>1,056</u>	<u>-</u>
Charter Schools	84.282	<u>36,492</u>	<u>-</u>
Innovative Education Program Strategies (Title VI of ESEA)	84.298	<u>2,532</u>	<u>906</u>
Reading First State Grants	84.357	<u>230,556</u>	<u>107,698</u>
Improving Teacher Quality State Grant	84.367	<u>74,304</u>	<u>92,763</u>
Total for federal grantor agency		<u>601,235</u>	<u>520,778</u>
Total federal awards expended		<u>\$ 740,935</u>	<u>\$ 663,194</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CHARTER SCHOOL OF THE DUNES
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Charter School of the Dunes (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

CHARTER SCHOOL OF THE DUNES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	yes

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Significant deficiencies identified that are not considered to be material weaknesses?	yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.357	Reading First State Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2008-1, ACCOUNTING FOR FEDERAL GRANT FUNDS

A separate accounting by fund for federal grants was not maintained. An accounting of the federal grant receipts and expenditures within the Grants Fund for the 2007-2008 school year was made by using object codes. Due to the commingling of the federal funds, we were unable to verify cash balances as reported for the Title I Grants to Local Educational Agencies and Reading First State Grants programs.

CHARTER SCHOOL OF THE DUNES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

The internal controls over reporting were not adequate. Failure to establish adequate reporting internal controls and demonstrate compliance with the reporting requirements may jeopardize the School's ability to obtain federal awards in the future.

We recommended procedures and internal controls be implemented that will ensure that each federal grant award is maintained in a separate fund.

Section III – Federal Award Findings and Questioned Costs

FINDING 2008-2, FINANCIAL REPORTING

Federal Agency: United States Department of Education
Federal Program: Title I Grants to Local Educational Agencies, Reading First State Grants
CFDA Number: 84.010, 84.357
Pass Through: Indiana Department of Education

Eight of the Title I quarterly reports that should have been filed during the audit period, three were not provided for audit. Four of the five that were presented were filed two to twenty-one days after the due date.

Required reports for the Reading First grant program were not presented.

Circular A-133 _____.300(b) states, "The auditee shall:

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs."

Failure to adhere to this requirement could cause the school to become ineligible to receive federal funds.

We recommended procedures be implemented to ensure that financial information is available to support preparation of the required reports.

FINDING 2008-3, CASH MANAGEMENT

Federal Agency: United States Department of Education
Federal Program: Title I Grants to Local Educational Agencies, Reading First State Grants
CFDA Number: 84.010, 84.357
Pass-Through Entity: Indiana Department of Education

The Title I grant was reviewed to determine if the calculated cash balance at month end exceeded the subsequent month's expenditures. The cash balance exceeded the subsequent month's expenditures for 16 months of the 24 months examined.

CHARTER SCHOOL OF THE DUNES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Reading First grant was reviewed to determine if the calculated cash balance at month end exceeded the subsequent month's expenditures. The cash balance exceeded the subsequent month's expenditures for 6 months of the 13 months tested.

As part of the grant application, the pass-through entity requires the local educational agency to sign-off on the provision which states in part: ". . . the amount of the estimated cash request will not result in a cash surplus greater than the estimated expenditures."

EDGAR 80.20 (b)(7) states in part: "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

Failure to follow the specific grant guidelines may jeopardize the Charter School's ability to obtain federal awards in the future.

We recommended procedures be implemented to match drawdown requests to the budgeted monthly expenditures, with the goal to minimize the amount of cash on hand at the end of each month.

The Charter School of the Dunes

860 North Lake Street Gary, Indiana 46403
Phone (219) 939-9690 Fax (219) 939-9031

June 30, 2009

Indiana State Board of Accounts
Mary Jo Small
Porter County Government Center
155 Indiana Ave
Valparaso, IN 46383

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number 2006-3

Original SBA Audit Report Number:	B29685
Fiscal Year:	6/30/04-6/30/06
Auditee Contact Person:	Roger Gray
Title of Contact Person:	VP School Finance
Phone Number:	(517)371-5948 x307
Status of Finding:	Ongoing
Federal Agency:	United States Department of Education
Federal Program:	Title I, Reading First State Grant
CFDA Number:	84.010, 84.357
Award Numbers:	05-9310, 06-9310
Pass-Through Entity:	Indiana Department of Education

Management has been making an effort to get filings submitted by reporting due dates since the date the prior audit finding was reported. Challenges with filing reports 10 days after the end of the quarter are primarily a result of the short time to collect the bank statements, prepare reconciliations and report the data. During 2006-07 to present, Management filings were as follows:

1st qtr report due 10/10/06 was filed 10/12/06.
2nd qtr report due 1/10/07 was filed 1/12/07.
3rd qtr report due 4/10/07 was filed 5/1/07.
Final Expenditure Report due 10/15/07 was filed 10/15/07.

1st qtr report due 10/10/07 was filed 10/15/07.
2nd qtr report due 1/10/08 was filed 1/10/08.
We were unable to locate DOE confirmation for filing the 3rd qtr report to prove date the report was filed.
Interim Expenditure report was filed 7/1/08
Final Expenditure was filed 10/30/08.

The mission of the Charter School of the Dunes is to embrace a diverse student body and inspire success through an innovative curriculum, while cultivating environmental stewardship, by holding accountable students, family, school, and community.

1st qtr report due 10/10/08 was filed 10/10/08.
2nd qtr report due 1/10/09 was filed 1/9/09.
3rd qtr report due 4/10/09 was filed 4/9/09.
Interim expenditure report as of date of this response is not yet due.

While there is still room for improvement, Management has made significant progress from finding 2006-3 from the 2004-06 audit dated 2/27/07 and is committed to finding ways to ensure reporting is completed in a timely manner.

Finding Number 2006-4

Original SBA Audit Report Number:	B29685
Fiscal Year	6/30/04-6/30/06
Auditee Contact Person	Roger Gray
Title of Contact Person	VP School Finance
Phone Number	(517)371-5948 x307
Status of Finding:	Ongoing
Federal Agency:	United States Department of Education
Federal Program:	Reading First State Grants
CFDA Number:	84.357
Pass-Through Entity:	Indiana Department of Education

Management has been requesting adjustments to scheduled distributions when cash receipts has been exceeding the pace of grant disbursements.

Finding Number 2006-5

Original SBA Audit Report Number:	B29685
Fiscal Year:	6/30/04-6/30/06
Auditee Contact Person:	Roger Gray
Title of Contact Person:	VP School Finance
Phone Number:	(517)371-5948 x307
Status of Finding:	Corrected
Federal Agency:	United States Department of Education
Federal Program:	Title I Grants to Local Educational Agencies
CFDA Number:	84.010
Award Numbers:	05-9310, 06-9310
Pass-Through Entity:	Indiana Department of Education

Management has continued to use an account segment in addition to a separate fund to separate revenue and expense transaction detail for grant awards. As a result of implementing the use of the additional fund and account segment beginning July 1, 2008, management is able to run general ledger reports to show how each individual grant award was spent and that expenditures were incurred in the period of availability.


Roger W. Gray
Senior VP School Finance
Mosaica Education, Inc.

The Charter School of the Dunes

860 North Lake Street Gary, Indiana 46403
Phone (219) 939-9690 Fax (219) 939-9031

June 30, 2009

Indiana State Board of Accounts
Mary Jo Small
Porter County Government Center
155 Indiana Ave
Valparaso, IN 46383

RE: Charter School of the Dunes, Corrective Action Plan

Please find attached the responses to SBOA audit comments for Charter School of the Dunes.
Please let me know if you need any additional information.

Section II Financial Statement Findings:

FINDING NO. 2008-1, INTERNAL CONTROLS OVER FEDERAL GRANT FINDINGS

Through the point in time when the 2006 audit was completed in early 2007, management believed it was tracking grant revenues and expenditures by using revenue and expenditure accounts with a segment identifying the specific grant the activity was being funded with in accordance with the federal audit guidelines and the Indiana Accounting and Uniform Compliance Guidelines Manual. The separate accounting by fund for federal grants was not done as our interpretation of language in section 3 of Indiana Accounting and Uniform Compliance Guidelines Manual was that use of separate funds was optional unless there was a matching requirement, in which case it was required that accounting for federal grants be maintained as part of the general fund. We had discussed this interpretation with the SBOA auditor that audited the School's records in 2005 and he indicated that the process of having a general fund account segment identify the specific grant the revenue/expense was coming from/being funded by was acceptable. None of the federal guidelines in OMB Circular A-133 require the use of separate funds to account for federal grant awards. Accordingly, we accounted for federal grant activity in a manner that would allow us to be able to report how specific grant allocations were spent. Once we were informed in early 2007 by SBOA auditors that the State preferred a separate accounting by fund to be maintained for federal grant receipts and expenditures, management made provisions to begin the requested record maintenance by recording federal grant activity in a separate fund beginning July 1, 2007. This was done to allow a clean transition from reporting federal grant revenues and expenditures in the General Fund to the new separate accounting by fund for federal grant receipts and expenditures.

Upon reviewing federal grant activity through June 30, 2008 as part of their audit procedures, the SBOA auditors have requested that we begin recording the activity for each federal grant in a separate fund. Management will convert to this beginning in 2009-10. Management believes it

The mission of the Charter School of the Dunes is to embrace a diverse student body and inspire success through an innovative curriculum, while cultivating environmental stewardship, by holding accountable students, family, school, and community.

has adequate internal controls as the school is able to run general ledger reports that account for every transaction funded by federal grant programs. In addition, that information was provided to SBOA auditors to demonstrate controls were sufficient to produce the reporting required by federal grant guidelines. Internal controls for the School's accounting and financial reporting systems are designed to mitigate control risk to an acceptable level. It is important to note that SBOA auditors did not have any recommended adjustments to the financial statements which would indicate that controls are adequate to prevent material misstatements from going uncorrected.

Section III Federal Award Findings and Questioned Costs:

FINDING NO. 2008-2, FINANCIAL REPORTING

Federal Agency:	United States Department of Education
Federal Program:	Title I, Reading First State Grants
CFDA Number:	84.010, 84.357
Pass Through:	Indiana Department of Education

Management provided copies of the general ledger reports that went along with the quarterly reports for Title I. Those quarterly reports were submitted based on the general ledger for invoices received through that date. Because the quarterly monitoring reports are due so quickly after year end, it is possible that reports run subsequent to the 10th of the month due date would include additional transaction detail that was posted to the general ledger after the interim reporting date. Since there is no Division of Compensatory Education procedure by which interim reports can be amended, management is unclear as to how reports based on information available so shortly after month end can include all activity when invoices for services through the end of the quarter typically would trickle in during the 30 day period following the end of the quarter. Management will continue attaching supporting documentation and general ledger reports to the file copies of the quarterly reporting maintained by the business office.

FINDING NO. 2008-3, CASH MANAGEMENT

Federal Agency:	United States Department of Education
Federal Program:	Title I, Reading First State Grants
CFDA Number:	84.010, 84.357
Pass Through:	Indiana Department of Education

Management estimates the timing of expenditures being funded at the time grant applications are submitted. During 2007-08 and 2008-09 when management has noted that the cash inflow from federal grant programs is outpacing the expenditures, management has requested that the State delay funding of the scheduled grant disbursements to bring revenues back in line with expenditures. In reviewing the quarterly report submissions, it was noted that whenever it was apparent that expenditures were lagging beyond a 30 day cash needs expectation, management requested an adjustment on the quarterly report to reduce the subsequent scheduled cash disbursements to bring cash inflows back in line with cash outflows.

Management will continue to monitor grant cash flow to adjust scheduled draws as required.



Roger Gray
Senior VP School Finance
Mosaica Education, Inc.

CHARTER SCHOOL OF THE DUNES
EXIT CONFERENCE

The contents of this report were discussed on July 14, 2009, with Ronald Cohen, Vice President of the School Board; Danielle Sleight, Treasurer; Roger Gray, Senior Vice President of School Finance; and Linda Becker, Finance Officer.