

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, 2008 to June 30, 2010



FILED
03/22/2011

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SCHEDULE OF OFFICIALS

| <u>Office</u> | <u>Official</u> | <u>Term</u> |
|----------------------------------|------------------------------------|--|
| Treasurer | Roger Gray Vito Bianco | 07-01-08 to 08-24-09 08-25-09 to 06-30-11 |
| Director of the School | Christine McKenzie | 07-01-08 to 06-30-11 |
| President of the School Board | Nancy Knightly Danielle Sleight | 07-01-08 to 06-30-09 07-01-09 to 06-30-11 |



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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, each major fund, and the aggregate remaining fund information of the Charter School of the Dunes (School Corporation), as of and for the years ended June 30, 2009 and 2010, 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.

Except as discussed in the following paragraph, 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.

The School Corporation did not provide for audit various documents. These included cancelled checks, capital asset records for purchases from both federal and local funds, various major federal program financial reports and supporting documents, and grant files for the following non-major federal programs – Improving Teacher Quality, Title IV Drug Free Schools, and Title V Education Technology. Also, the School Corporation officials did not prepare a Schedule of Expenditures of Federal Awards as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

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, except for the items disclosed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2009 and 2010, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

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

In accordance with Government Auditing Standards, we have also issued a report dated February 16, 2011, 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 integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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, Schedules of Funding Progress, Schedule of Contributions From the Employer and Other Contributing Entities, 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 Schedules, as listed in the Table of Contents, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Long-Term Debt has 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 it.

The School Corporation's response to the Audit Results and Comments identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the School Corporation's response and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

February 16, 2011



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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, each major fund, and the aggregate remaining fund information of the Charter School of the Dunes (School Corporation), as of and for the years ended June 30, 2009 and 2010, which collectively comprise the School Corporation's basic financial statements and have issued our report thereon dated February 16, 2011. The opinions to the financial statements were qualified due to the School Corporation not providing for audit various documents. 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 Finding 2010-1 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, of the significant deficiencies described above, we consider item Finding 2010-1 to be 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 Finding 2010-1.

The School Corporation's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response and 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, 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

February 16, 2011

CHARTER SCHOOL OF THE DUNES
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For the Year Ended June 30, 2009

| <u>Functions/Programs</u> | <u>Disbursements</u> | <u>Program Receipts</u> | | <u>Totals</u> |
|--|----------------------------|---------------------------------|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Net (Disbursement) Receipts and Changes in Net Assets</u> |
| Governmental activities: | | | | |
| Instruction | \$ 1,436,668 | \$ - | \$ 192,603 | \$ (1,244,065) |
| Support services | 1,520,108 | 9,108 | 145,496 | (1,365,504) |
| Noninstructional services | 184,037 | - | - | (184,037) |
| Facilities acquisition and construction | 651,855 | - | - | (651,855) |
| Debt service | 298,210 | - | - | (298,210) |
| Total governmental activities | <u>\$ 4,090,878</u> | <u>\$ 9,108</u> | <u>\$ 338,099</u> | <u>(3,743,671)</u> |
| General receipts: | | | | |
| Property taxes | | | | 1,144,957 |
| Other local sources | | | | 15,161 |
| State aid | | | | 2,247,688 |
| Grants and contributions not restricted to specific programs | | | | 768,882 |
| Investment earnings | | | | 1,353 |
| Total general receipts | | | | <u>4,178,041</u> |
| Change in net assets | | | | 434,370 |
| Net assets - beginning | | | | <u>321,255</u> |
| Net assets - ending | | | | <u>\$ 755,625</u> |
| <u>Assets</u> | | | | |
| Cash and investments | | | | <u>\$ 755,625</u> |
| <u>Net Assets</u> | | | | |
| Unrestricted | | | | <u>\$ 755,625</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, 2010

| <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 | \$ 1,752,260 | \$ - | \$ 77,537 | \$ (1,674,723) |
| Support services | 1,298,277 | 7,902 | 129,554 | (1,160,821) |
| Noninstructional services | 193,750 | - | - | (193,750) |
| Facilities acquisition and construction | <u>269,777</u> | <u>-</u> | <u>-</u> | <u>(269,777)</u> |
| Total governmental activities | <u>\$ 3,514,064</u> | <u>\$ 7,902</u> | <u>\$ 207,091</u> | <u>(3,299,071)</u> |
| General receipts: | | | | |
| Property taxes | | | | 31,292 |
| Other local sources | | | | 60,055 |
| State aid | | | | 2,488,188 |
| Grants and contributions not restricted to specific programs | | | | 881,360 |
| Investment earnings | | | | <u>1,189</u> |
| Total general receipts | | | | <u>3,462,084</u> |
| Change in net assets | | | | 163,013 |
| Net assets - beginning | | | | <u>755,625</u> |
| Net assets - ending | | | | <u>\$ 918,638</u> |
| <u>Assets</u> | | | | |
| Cash and investments | | | | <u>\$ 918,638</u> |
| <u>Net Assets</u> | | | | |
| Unrestricted | | | | <u>\$ 918,638</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, 2009

| | <u>General</u> | <u>Other</u> | <u>Totals</u> |
|---|----------------------|----------------------|----------------------|
| Receipts: | | | |
| Local sources | \$ 1,161,458 | \$ 9,121 | \$ 1,170,579 |
| State sources | 2,319,964 | 868 | 2,320,832 |
| Federal sources | 88,343 | 945,494 | 1,033,837 |
| Interfund loans | <u>337,712</u> | <u>110,842</u> | <u>448,554</u> |
| Total receipts | <u>3,907,477</u> | <u>1,066,325</u> | <u>4,973,802</u> |
| Disbursements: | | | |
| Current: | | | |
| Instruction | 1,059,456 | 377,212 | 1,436,668 |
| Support services | 1,398,855 | 121,253 | 1,520,108 |
| Noninstructional services | - | 179,377 | 179,377 |
| Facilities acquisition and construction | 651,855 | - | 651,855 |
| Debt services | 298,210 | - | 298,210 |
| Nonprogrammed charges | - | 4,660 | 4,660 |
| Interfund loans | <u>-</u> | <u>448,554</u> | <u>448,554</u> |
| Total disbursements | <u>3,408,376</u> | <u>1,131,056</u> | <u>4,539,432</u> |
| Excess (deficiency) of receipts over disbursements | <u>499,101</u> | <u>(64,731)</u> | <u>434,370</u> |
| Other financing sources (uses): | | | |
| Transfers in | 20,385 | 56,496 | 76,881 |
| Transfers out | <u>(76,881)</u> | <u>-</u> | <u>(76,881)</u> |
| Total other financing sources (uses) | <u>(56,496)</u> | <u>56,496</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | 442,605 | (8,235) | 434,370 |
| Cash and investments - beginning | <u>312,371</u> | <u>8,884</u> | <u>321,255</u> |
| Cash and investments - ending | <u>\$ 754,976</u> | <u>\$ 649</u> | <u>\$ 755,625</u> |
| <u>Cash and Investment Assets - Ending</u> | | | |
| Cash and investments | <u>\$ 754,976</u> | <u>\$ 649</u> | <u>\$ 755,625</u> |
| <u>Cash and Investment Fund Balance - Ending</u> | | | |
| Unrestricted | <u>\$ 754,976</u> | <u>\$ 649</u> | <u>\$ 755,625</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 Title I 2009/10 Fund is used to account for the financial activity pertaining to the federal grant award for Title I for 2009/10.

The ARRA Title I Fund is used to account for the financial activity pertaining to the federal grant award for the American Recovery and Reinvestment Act Title I.

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

C. Measurement Focus and Basis of Accounting

The government-wide and governmental fund 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. Receipts are recorded when received and disbursements are recorded when paid.

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. Restricted Assets

All restricted assets, as presented in the accompanying financial statements, are restricted due to enabling legislation.

2. 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.

3. Property Taxes

Normally, 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. 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 may become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

4. Capital Assets

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

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

5. Long-Term Debt

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

6. 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."

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 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 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 not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

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

4. Interfund loans – Flow of assets from one fund to another where repayment is expected is reported as interfund loans.

Government-Wide Financial Statements

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

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 loans and services between funds, if any, are not eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

Cash Balance Deficits

At June 30, 2009 and 2010, the following funds reported deficits in cash, which are violations of the Uniform Compliance Guidelines as authorized by state statute:

| <u>Fund</u> | <u>2008/09</u> | <u>2009/10</u> |
|----------------------------|----------------|----------------|
| Title IV Drug Free Schools | \$ - | \$ 251 |
| ARRA Special Education | - | 73,028 |

III. 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. At June 30, 2010, the School Corporation had deposit balances in the amount of \$918,638.

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.

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

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2009 and 2010, were as follows:

| <u>Transfer From</u> | <u>Transfer To</u> | <u>2008/09</u> | <u>2009/10</u> |
|--------------------------|--------------------------|------------------|-------------------|
| General Fund | General Fund | \$ 20,385 | \$ - |
| | Other Governmental Funds | 56,496 | 329,008 |
| Other Governmental Funds | General Fund | - | 1,082 |
| | Title I 2009/10 | <u>-</u> | <u>48,682</u> |
| Totals | | <u>\$ 76,881</u> | <u>\$ 378,772</u> |

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

IV. Other Information

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; 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; and natural disasters are covered by commercial insurance from independent third parties.

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, 2010

| | School Lunch | Textbook Rental | Title I 2008/09 | Title V | Title IV Drug Free Schools | Title II | Special Education | ARRA Fiscal Stabilization | ARRA Special Education | Totals |
|---|----------------|-----------------|-----------------|--------------|----------------------------|---------------|-------------------|---------------------------|------------------------|----------------|
| Receipts: | | | | | | | | | | |
| Local sources | \$ 4,670 | \$ 448 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,118 |
| State sources | 364 | 10,270 | - | - | - | - | - | - | - | 10,634 |
| Federal sources | 129,191 | - | 93,422 | 300 | - | 60,000 | 71,927 | 65,023 | - | 419,863 |
| Total receipts | 134,225 | 10,718 | 93,422 | 300 | - | 60,000 | 71,927 | 65,023 | - | 435,615 |
| Disbursements: | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Instruction | - | 57,686 | 46,780 | - | 2,976 | 26,482 | 48,767 | 62,154 | 62,893 | 307,738 |
| Support services | - | - | 72,587 | - | 155 | 5,275 | 20,308 | 149,720 | 10,135 | 258,180 |
| Noninstructional services | 186,971 | - | - | - | - | - | - | - | - | 186,971 |
| Total disbursements | 186,971 | 57,686 | 119,367 | - | 3,131 | 31,757 | 69,075 | 211,874 | 73,028 | 752,889 |
| Excess (deficiency) of receipts over disbursements | (52,746) | (46,968) | (25,945) | 300 | (3,131) | 28,243 | 2,852 | (146,851) | (73,028) | (317,274) |
| Other financing sources (uses): | | | | | | | | | | |
| Transfers in | 52,097 | 46,968 | 75,409 | - | 2,880 | - | 4,803 | 146,851 | - | 329,008 |
| Transfers out | - | - | (49,464) | (300) | - | - | - | - | - | (49,764) |
| Total other financing sources (uses) | 52,097 | 46,968 | 25,945 | (300) | 2,880 | - | 4,803 | 146,851 | - | 279,244 |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | (649) | - | - | - | (251) | 28,243 | 7,655 | - | (73,028) | (38,030) |
| Cash and investments - beginning | 649 | - | - | - | - | - | - | - | - | 649 |
| Cash and investments - ending | \$ - | \$ - | \$ - | \$ - | \$ (251) | \$ 28,243 | \$ 7,655 | \$ - | \$ (73,028) | \$ (37,381) |
| Cash and Investment Assets - Ending | | | | | | | | | | |
| Cash and investments | \$ - | \$ - | \$ - | \$ - | \$ (251) | \$ 28,243 | \$ 7,655 | \$ - | \$ (73,028) | \$ (37,381) |
| Cash and Investment Fund Balance - Ending | | | | | | | | | | |
| Unrestricted | \$ - | \$ - | \$ - | \$ - | \$ (251) | \$ 28,243 | \$ 7,655 | \$ - | \$ (73,028) | \$ (37,381) |

CHARTER SCHOOL OF THE DUNES
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 June 30, 2010

The School Corporation has entered into the following debt:

| Description of Debt | Ending Principal Balance | Principal and Interest Due Within One Year |
|---------------------------------|--------------------------------|---|
| Governmental activities: | | |
| Common School Fund Loan Payable | \$ 1,408,814 | \$ - |

CHARTER SCHOOL OF THE DUNES
AUDIT RESULTS AND COMMENTS

FINANCIAL REPORT OPINION MODIFICATIONS

The following items were requested for audit, but were not provided:

1. Cancelled checks to support payments for items examined supporting disbursements.
2. Capital asset records.
3. Grant files for the two major federal programs did not contain all financial reports prepared and supporting documents for those reports, explanation of adjustments to the funds, and a listing of capital assets purchased with federal funds.
4. Grant files for Title II Improving Teacher Quality (Fund 6840).
5. Grant files for Title IV Drug Free Schools (Fund 5800).
6. Grant files for Title V Education Technology (Fund 4200).

Therefore, the State Board of Accounts was unable to provide an unqualified opinion on the Independent Auditors' Report for the financial statements.

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

FEDERAL AND STATE AGENCIES - COMPLIANCE REQUIREMENTS

Charter School of the Dunes Officials did not complete the following federal schedules and questionnaires:

1. Schedule of Federal Financial Assistance for the school years 2008/2009 and 2009/2010.
2. Title 1 Questionnaire.
3. Other documents that we requested to be completed.

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)

BIANNUAL FINANCIAL REPORT TO A STATE AGENCY

The Biannual Financial Report for the period January 1, 2010 to June 30, 2010, was due on August 2, 2010. The Report was filed on December 8, 2010, 128 days after the due date.

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

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)

A memorandum dated June 18, 2010, was sent from the Indiana Department of Education to all School Corporations concerning the Biannual Financial Report for the period January 1, 2010 to June 30, 2010. "The Biannual Financial Report is the basis for information requested by local, state, and federal educators and others for use in planning the management of school finances. Please be reminded that the Biannual Financial Report is due in our office on or before August 2, 2010."

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)

CAPITAL ASSETS RECORDS

Charter School of the Dunes Officials did not present for audit any capital assets records or inventory of capital assets. Without the records, we could not verify the proper accounting for purchases of capital assets with federal or local funds.

A similar comment appeared in the prior report.

Every governmental unit should have a complete inventory of all fixed assets owned which reflects their acquisition value. Such inventory should be recorded on the applicable General Fixed Asset Account Group Form. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

IC 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

OPTICAL IMAGES OF CHECKS

Actual cancelled checks or the optical images of the front and back of all cancelled checks from the financial institution were not provided for audit with the monthly bank statements.

IC 5-15-6-3(a) concerning optical imaging of checks states in part:

". . . 'original records' includes the optical image of a check or deposit document when:

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

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Furthermore, IC 26-2-8-111 states in part:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

OVERDRAWN CASH BALANCES

The cash balances of the Title IV Drug Free Schools Fund (5800) and the ARRA Special Education Fund (7953) were overdrawn \$251 and \$73,028, respectively, at June 30, 2010. These two federal grant funds were not reimbursement grants.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TRANSFERS BETWEEN FUNDS

The Charter School of the Dunes School Board did not approve the transfers between funds. There were transfers between funds of \$76,881 during fiscal year 2008/2009 and \$378,772 during fiscal year 2009/2010.

Payments or transfers which are not authorized by statute, ordinance, resolution, or court order must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Examples of school business decisions and transactions which should be recorded in the minutes are:

18. Record of Loans between funds. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

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

OFFICIAL BONDS

The following official bonds were not presented for audit and were not filed in the Office of the County Recorder:

Treasurer for the period September 1, 2008 to September 1, 2011
Employee Dishonesty Coverage for the period August 1, 2008 to August 1, 2011

The State Board of Accounts is of the audit position bonds should be filed and recorded in the office of the county recorder. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

ACCOUNTS PAYABLE VOUCHERS

Claims (accounts payable vouchers) were paid prior to the allowance by the Charter School of the Dunes School Board for 100% of accounts payable vouchers reviewed.

IC 5-11-10-1.6 states in part:

- "(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.
- (c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless: . . .
 - (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

DISCONNECT NOTICE AND LATE FEES

Information presented for audit indicates that, in some cases, amounts payable to vendors and other suppliers of goods and services were being paid up to four months after the invoice dates. We also noted a disconnect notice received for nonpayment of phone services. When examining claims, we noted that a late fee was assessed by the waste disposal company for prior invoices not paid timely.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

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

CONTRACTS

Records presented for audit indicate payments were made to a social worker at an hourly rate of \$60 in 2009 without a contract.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

EMPLOYEE SERVICE RECORDS

Employee Service Records (General Payroll Form 99A) were not maintained for both school years. The prescribed form was replaced by another hand posted service record; which did not include all the required information. A similar comment appeared in the prior report.

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)

CERTIFIED REPORT OF NAMES, ADDRESSES, DUTIES AND COMPENSATION OF PUBLIC EMPLOYEES, GENERAL FORM 100R

The Certified Report of Names, Addresses, Duties and Compensation of Public Employees, General Form 100R, was not filed. The report is due by January 31, 2009 and January 31, 2010.

IC 5-15-6-3(f) concerning destruction of public records, states in part: "Original records may be disposed of only with the approval of the commission according to guidelines established by the commission."

IC 5-11-13-1 concerning the personnel report states in part:

"Every . . . school official . . . shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents in their respective . . . institutions, and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts."

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)

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

TRAVEL CLAIMS

We noted that travel claims were not completed on the prescribed Mileage Claim Form. The expense report used by the School listed total miles driven; however, did not contain the address the miles were driven to or from.

Individuals requesting reimbursement for driving personal vehicles for extra-curricular purposes should properly complete a Mileage Claim, General Form 101, prior to receiving reimbursement. (Accounting and Uniform Compliance Guidelines Manual for Extra-Curricular Accounts, Chapter 1)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
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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, 2009 and 2010. 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.

Except as discussed in the following paragraph, 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.

We were unable to obtain sufficient documentation supporting the compliance of the School Corporation with Title I Grants to Local Educational Agencies, ARRA Title I Grants to Local Educational Agencies, and ARRA State Fiscal Stabilization Fund (SFSF) – Education State Grants regarding Cash Management, Reporting, and Equipment, nor were we able to satisfy ourselves as to the School Corporation's compliance with those requirements by other auditing procedures as described in items Finding 2010-2, Finding 2010-3, and Finding 2010-4.

As described in items Finding 2010-2, Finding 2010-3, and Finding 2010-4 in the accompanying Schedule of Findings and Questioned Costs, the School Corporation did not comply with requirements regarding Cash Management, Reporting, and Equipment that are applicable to its Title I Grants to Local Educational Agencies, ARRA Title I Grants to Local Educational Agencies, and ARRA State Fiscal Stabilization Fund (SFSF) – Education State Grants. Compliance with such requirements is necessary, in our opinion, for the School Corporation to comply with requirements applicable to that program.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the School Corporation's compliance with the requirements of Title I Grants to Local Educational Agencies, ARRA Title I Grants to Local

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)

Educational Agencies, and ARRA State Fiscal Stabilization Fund (SFSF) – Education State Grants regarding Cash Management, Reporting, and Equipment, except for the noncompliance described in the preceding paragraph, the School Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the years ended June 30, 2009 and 2010. The results of our auditing procedures also disclosed other 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 item Finding 2010-1.

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 Finding 2010-2, Finding 2010-3, and Finding 2010-4 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. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items Finding 2010-2, Finding 2010-3, and Finding 2010-4, to be material weaknesses.

The School Corporation's response to the findings identified in our audit is described in the accompanying Official Response and 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, 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

February 16, 2011

CHARTER SCHOOL OF THE DUNES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 31, 2009 and 2010

| Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title | Federal CFDA Number | Pass-Through Entity (or Other) Identifying Number | Total Federal Awards Expended 06-31-09 | Total Federal Awards Expended 06-31-10 |
|---|---------------------------|--|---|---|
| <u>U.S. DEPARTMENT OF AGRICULTURE</u> | | | | |
| Pass-Through Indiana Department of Education | | | | |
| Child Nutrition Cluster | | | | |
| School Breakfast Program | 10.553 | | \$ 21,386 | \$ 21,626 |
| National School Lunch Program | 10.555 | | <u>110,709</u> | <u>105,276</u> |
| Total for cluster | | | <u>132,095</u> | <u>126,902</u> |
| Child and Adult Care Food Program (CACFP) | 10.558 | After School Snack | <u>1,553</u> | <u>2,288</u> |
| Total for federal grantor agency | | | <u>133,648</u> | <u>129,190</u> |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| Pass-Through Indiana Department of Education | | | | |
| Title 1, Part A Cluster | | | | |
| Title 1 Grants to Local Educational Agencies | 84.010 | | 483,535 | - |
| School Improvement | | 08/09 | - | 380,953 |
| School Improvement | | 09/10 | 134,757 | 49,624 |
| School Improvement | | | <u>-</u> | <u>53,035</u> |
| Total for program | | | <u>618,292</u> | <u>483,612</u> |
| ARRA-Title 1 Grants to Local Educational Agencies, Recovery Act | 84.389 | 10-9310 | <u>-</u> | <u>46,409</u> |
| Total for cluster | | | <u>618,292</u> | <u>530,021</u> |
| Special Education Cluster | | | | |
| Special Education - Grants to States | 84.027 | | - | 69,075 |
| ARRA-Special Education Grants to States, Recovery Act | 84.391 | | <u>-</u> | <u>73,027</u> |
| Total for cluster | | | <u>-</u> | <u>142,102</u> |
| State Fiscal Stabilization Fund Cluster | | | | |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | | <u>215,783</u> | <u>211,874</u> |
| Pass-Through Indiana Department of Education | | | | |
| Safe and Drug Free Schools and Communities - State Grants | 84.186 | | <u>2,888</u> | <u>3,131</u> |
| Innovative Education Program Strategies (Title VI of ESEA) | 84.298 | | <u>906</u> | <u>300</u> |
| Improving Teacher Quality State Grant | 84.367 | | <u>51,155</u> | <u>31,757</u> |
| Total for federal grantor agency | | | <u>889,024</u> | <u>919,185</u> |
| Total federal awards expended | | | <u>\$ 1,022,672</u> | <u>\$ 1,048,375</u> |

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

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

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 cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

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: Qualified

Internal control over financial reporting:

| | |
|--|---------------|
| Material weaknesses identified? | yes |
| Significant deficiencies identified that are not considered to be material weaknesses? | none reported |

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

| | |
|--|---------------|
| Material weaknesses identified? | yes |
| Significant deficiencies identified that are not considered to be material weaknesses? | none reported |

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

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:

Name of Federal Program or Cluster

Title I, Part A Cluster
State Fiscal Stabilization Fund Cluster

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 2010-1, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Charter School of the Dunes Officials failed to provide a Schedule of Federal Financial Assistance for the school years 2008/2009 and 2009/2010. Adequate internal control over reporting of Federal awards requires that auditees be aware of the applicable requirements.

The presented Schedule of Expenditures of Federal Awards, with the approval of the Charter School of the Dunes Officials was prepared based upon the records.

OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, Subpart C, states in part:

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

"Auditee Responsibilities. The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310. . ."

§___.310 Financial statements states:

- "(b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. . ."

We recommended that Charter School of the Dunes Officials implement procedures to adequately identify and accurately report all Federal award programs.

Section III – Federal Award Findings and Questioned Costs

FINDING 2010-2, FINANCIAL REPORTING

Federal Agency: United States Department of Education
 Federal Programs: Title I Grants to Local Educational Agencies, ARRA State Fiscal Stabilization Fund (SFSF) Education State Grants
 CFDA Numbers: 84.010, 84.394
 Pass Through: Indiana Department of Education

The cash balance reported on the Title 1 Final Expenditure Report did agree to the cash balance per the ledger at June 30, 2010. Furthermore, the cash balance reported on the Title 1 Quarterly Monitoring Report for June 30, 2010, did not agree to the ledger balance.

| | <u>Reported 06-30-10 Ledger Balance</u> | <u>Actual 06-30-10 Ledger Balance</u> | <u>Difference</u> |
|---|---|---|-------------------|
| Title 1 Quarterly Monitoring Report | \$ (16,888.87) | \$ 34,987.28 | \$ 51,876.15 |
| Title 1 Final Annual Expenditure Report | 28,412.98 | 34,987.28 | 6,574.30 |

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

Additionally, various grant files and reports were incomplete or not provided for audit. For example, the Fiscal Stabilization Grant had only the October 31, 2009, Annual Expense Report in the grant files provided for audit. Per the unit's ledger, funds were received during the 2008/2009 school year, therefore we could not determine if the reporting requirements were met.

Circular A-133 _____.300 states in part: "Auditee Responsibilities. 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 Charter School of the Dunes to become ineligible to receive Federal funds.

We recommended that the Charter School of the Dunes implement procedures to ensure that financial information is available to support the required reports.

FINDING 2010-3, CASH MANAGEMENT

Federal Agency: United States Department of Education
Federal Programs: ARRA - Title I Grants to Local Educational Agencies Recovery Act, Title I Grants to Local Educational Agencies - School Improvement Grant
CFDA Numbers: 84.389, 84.010
Award Numbers: 10-9310
Pass Through: Indiana Department of Education

The Charter School of the Dunes was awarded \$146,994.59, in American Recovery and Reinvestment Act (ARRA) Title I funds. These funds were passed through from the Indiana Department of Education. The Charter School of the Dunes had excessive cash balances for the grant for all months of fiscal year 2009/2010. Excess cash balances ranged from \$13,033 to \$124,896. The Charter School of the Dunes ceased receiving ARRA Title I funds in January 2010, due to the large cash balance on hand of \$124,896. As a result, the Charter School of the Dunes was unable to request the remaining funds of \$62,994 from the original ARRA Title I Grant Award.

Additionally, the Charter School of the Dunes was awarded \$76,434 in Title I School Improvement Funds for the 2009/2010 school year. At the end of the 2009/2010 school year, the cash balance in the Title I School Improvement Fund was \$23,384, 31% of the original grant award.

Per the State's "Quarterly Project Expenditure Report" for Title I, excessive cash balances were defined as a cash balance at the end of any month that is greater than 10% of that month's expenditures. An amended cash request form must be submitted to reduce the next month's distribution in order to alleviate an excessive cash balance. Cash balances for each month should be zero or as near zero as possible to receive next month's distribution.

Failure to minimize the cash on hand balances indicates noncompliance with cash management requirements established by federal agencies.

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

EDGAR § 80.20 states in part: ". . .

(b) The financial management systems of other grantees and subgrantees must meet the following standards: . . .

(7) Cash management. 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 establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. 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."

Effective July 1, 2010, the Indiana Department of Education modified the grant process for their subrecipients. School corporations will no longer be requesting grant advances; instead, school corporations will be required to spend the funds, necessitating reimbursements on funds already spent.

We recommended Charter School of the Dunes Officials follow the new guidelines established by the Indiana Department of Education, requiring Title I funds to be reimbursed after the funds have been properly spent.

FINDING 2010-4, CAPITAL ASSET RECORDS AND CONTROLS

Federal Agency: United States Department of Education
Federal Programs: Title I Grants to Local Educational Agencies, ARRA State Fiscal Stabilization Fund (SFSF) Education State Grants
CFDA Numbers: 84.010, 84.394
Pass Through: Indiana Department of Education

Capital asset inventory records were not maintained for equipment purchased with federal funds.

EDGAR 80.32 states in part:

". . . (f) . . . In the event a grantee or subgrantee is provided federally-owned equipment: (1) Title will remain vested in the Federal Government. (2) Grantees or subgrantees will manage the equipment in accordance with Federal agency rules and procedures, and submit an annual inventory listing. (3) When the equipment is no longer needed, the grantee or subgrantee will request disposition instructions from the Federal agency."

We recommended that Charter School of the Dunes Officials establish procedures to ensure that equipment purchased with federal funds is accounted for in accordance with federal guidelines.

The Charter School of the Dunes

860 North Lake Street Gary, Indiana 46403

Indiana State Board of Accounts
Room E418
302 West Washington Street
Indianapolis, IN 46204-2765

February 9, 2011

To Whom It May Concern:

Below please find the required responses:

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2008-1, ACCOUNTING FOR FEDERAL GRANT FUNDS

| | |
|-----------------------------------|---------------------------|
| Original SBA Audit Report Number: | B34621 |
| Fiscal Years | 07/01/06 to 06/30/08 |
| Auditee Contact Person | <u>Kathleen Kansfield</u> |
| Title of Contact Person | <u>Controller</u> |
| Phone Number | <u>312-226-3355</u> |
| Status of Finding: | |

Upon change of educational management organizations in August 2009, the new accounting system utilizes separate fund codes for all Federal Grant Funds using the recommended Indiana School Fund Codes. It should be noted that the portion of Title I funds for School Improvement Grant was recorded using separate GL location codes incorporated into the chart of accounts, to isolate those revenues and expenditures from the basic Title I Federal Grant funds for reporting. Prior to August 2009, the 7/1/08 to 6/30/09 General Ledger and reporting provided from the prior management organization utilized separated fund codes for Federal Grant Funds.

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

Original SBA Audit Report Number: B34621
Fiscal Years 07/01/06 to 06/30/08
Auditee Contact Person Kathleen Kansfield
Title of Contact Person Controller
Phone Number 312-226-3355
Status of Finding:

Upon change of educational management organizations in August 2009, general ledger reports used to prepare the quarterly filings are included in the files as support documentation. In addition, going forward, the cash balance detail by fund reports will also be included as supporting documentation to all report filing ending cash balances.

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

Original SBA Audit Report Number: B34621
Fiscal Years 07/01/06 to 06/30/08
Auditee Contact Person Kathleen Kansfield
Title of Contact Person Controller
Phone Number 312-226-3355
Status of Finding:

Shortly after the change of educational management organizations in August 2009, the new state monthly reporting requirements for all Federal Funds included request to adjust next monthly distribution of funding if excess funds above actual expenditures. When applicable, the funding distributions were reduced or adjusted. Beginning in Fiscal Year 2011 all funding distributions are reimbursement based for expended funds only.



Vito C. Bianco

February, 9, 2011

The Charter School of the Dunes

860 North Lake Street Gary, Indiana 46403

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Indianapolis, IN 46204-2765

February 9, 2011

To Whom It May Concern:

Below please find the Corrective Action Plan to the audit findings as of 6-30-10:

CORRECTIVE ACTION PLAN

FINDING 2010-1, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Based on these new Federal Audit Requirements, officials will be sure to prepare the Schedule of Federal Financial Assistance and Schedule of Expenditures of Federal Awards at the close of each school year so it is available for the Federal Audit upon request.

FINDING 2010-2, FINANCIAL REPORTING

Effective immediately, all cash fund ledgers will be printed as supporting documents and reconciled to all required Federal reporting. Individual are maintained for all Federal funding sources containing approved programs and any required reporting and supporting documents.

The auditors were provided a reconciliation of the Title I Quarterly Monitoring Report ending cash balance variance identifying the reporting errors. The material error was due to the transfer of FY09 Title I Carryover funds were not identified as received funding on the Title I Quarterly Monitoring Report. The amount listed as the actual ledger balance at 6/30/10 was accurate as provided on the reconciliation report. The errors were identified when the Title I Final Annual Expenditure Report was prepared and filed beyond the date for amending the Title I Quarterly Monitoring Report.

FINDING 2010-2, FINANCIAL REPORTING (Continued)

The Title I Final Annual Expenditure Report reflected activity and cash balances as compared to the 6/30/10 ledger balances is an inaccurate finding presentation on the audit report. The Title I Final Annual Expenditure Report through the end of the program liquidation period as of 9/30/10 as required by State and Federal requirements. The report and all supporting documentation reflected this activity. Unfortunately the actual Title I Final Expenditure Report improperly reflected a program ending date of 6/30/10.

Due to the change in Educational Management Organizations (EMO) and a large portion of the schools leadership positions in August 2009, several of the smaller grant files from the 08/09 school year were unavailable within the short period available to gather this information.

The October 2009 Fiscal Stabilization report reflected 100% of all funds received from the June 2009 and the September 2009 distributions of these funds. The detail provided in the prior (EMO) general ledger in conjunction with the reports supporting documents should have been sufficient to determine if the reporting requirements were met.

FINDING 2010-3, CASH MANAGEMENT

Effective July 1, 2010, the school corporation only requests grant funding on a reimbursement basis for funds already expended or encumbered. This will eliminate all excessive cash balances of Federal funds.

FINDING 2010-4, CAPITAL ASSET RECORDS AND CONTROLS

Effective immediately, a separate asset ledger will be maintained for all capital assets purchased with Federal Funds. The school does have all existing capital assets purchased with Federal Funds physically permanently tagged with funding sources. And existing capital asset records obtained from prior EMO did identify those assets purchased with Federal Funds.



Vito C. Bianco

February, 14, 2011

CHARTER SCHOOL OF THE DUNES
EXIT CONFERENCE

The contents of this report were discussed on February 16, 2011, with Vito Bianco, Treasurer; Christine McKenzie, Director of the School; Ron Cohen, Vice President of the School Board; and Kathleen Kansfield, Accounting Controller. The official response has been made a part of this report and may be found on pages 39 through 41.

The Charter School of the Dunes



860 North Lake Street Gary, Indiana 46403

Indiana State Board of Accounts
Room E418
302 West Washington Street
Indianapolis, IN 46204-2765

February 28, 2011

The Charter School of the Dunes Management Response to Examination Results and Comments

Financial Report Opinion Modifications

The management company has had discussion with State Auditors, expressing concerns over the timing and volume of audit data required in a very short period. The discussion led to several suggestions to ensure much of the data and supplemental schedules can be prepared in advance of the audit.

In August 2009, the school board approved moving to a new educational management company. Due to timing and volume of audit data requested, we were unable to obtain all the missing grant files, information and asset information relating to the audit period from the prior management company.

Federal and State Agencies – Compliance Requirements

Based on these new Federal Audit Requirements, officials will be sure to prepare the Schedule of Federal Financial Assistance and Schedule of Expenditures of Federal Awards at the close of each school year so it is available for the Federal Audit upon request.

Biannual Financial Report to a State Agency

School officials will be sure to file accurate and timely reports as required by federal and state agencies.

Capital Asset Records

The school does maintain the Capital Assets Ledger Form 369 as a record of capital assets. The management company will ensure this data is available during the audits.

Optical Images of Checks

The general and payroll checking accounts set up in August 2009, were not providing the optical images of cancelled checks on the bank statements. The optical images were available to be printed from online banking at any time.

The management company has requested printouts of all cancelled checks not otherwise provided and ensured that all future statements contain printed optical images of checks with the monthly bank statements.

Overdrawn Cash Balances

The school officials maintain internal controls which do monitor fund cash balances.

The specific overdrawn cash balances identified in the audit are addressed below.

The 6-30-10 overdrawn Title IV fund (5800) will be submitted for board approval of general fund transfer as of 6-30-11.

The ARRA Special Education Fund (7953) was funded on reimbursement request in September 2010.

Transfers Between Funds

The school board will be presented for approval all proposed transfers between funds based on school business decisions and transactions.

Official Bonds

The copies official bond and employee dishonesty insurance coverage for the fiscal year 2008/2009 was not received from the prior management company during the audit fieldwork.

As of fiscal year 2009/2010, the employee dishonesty insurance coverage is combined in part of the overall school insurance package and not a separate policy document.

The management company has ensured that all treasurer bonds have been filed with the Office of County Recorder for fiscal year 2009/2010 and current fiscal year 2010/2011.

Accounts Payable Vouchers

Prior to August 2009, all claims checks were signed by the school board president. Beginning in August 2009 the school board reviews and approves all open (unpaid) claims as of the date of the monthly board reports issuance. The school board has approved the fiscal officer to have jurisdiction over allowance of payment of the claims. Based on discussion with the State Auditor, the separate approval of open (unpaid claims) was not clear in the school board minutes.

The current management company is developing new claims approval procedures to ensure clarity of approval of open unpaid claims and paid claims with recurring expenditure approval by the board.

Disconnect Notice and Late Fees

Based on detail information provided by the State Auditor, the timing of these 2 identified instances were for invoices received by the prior management company but not paid until additional invoices reflecting disconnect notice and / or late fees were provided to the current management company in September and October 2009.

Travel Claims

Based on detail information provided by the State Auditor, the 2 travel claims paid without the Mileage Claim General Form 101 occurred in October 2009, prior to the school's receiving the preprinted prescribed forms.

Contracts

The school will make sure all contractual services are supported by written contracts.

Employee Time Records

The school has ordered prescribed General Payroll Form 99A to be used for the 2010-2011 school year forward.

Certified Report of Names, Addresses, Duties and Compensation of Public Employees, General Form 100R

The management company will ensure that this report is available for audit and filed with the State Board of Accounts as required annually.