



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B43271

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

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

February 28, 2014

Charter School Board
Charter School of the Dunes, Inc.
7300 Melton Road
Gary, IN 46403

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac, LLC, Independent Public Accountants, for the period July 1, 2011 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Charter School of the Dunes, Inc., as of June 30, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

In addition to the report presented herein, a Supplemental Audit Report for Charter School of the Dunes, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

State Board of Accounts

CHARTER SCHOOL OF THE DUNES, INC.

Financial Statements

June 30, 2012

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities	3
Consolidated Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5-12
Other Reports	13

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Charter School of the Dunes, Inc.

We have audited the accompanying consolidated statement of financial position of **Charter School of the Dunes, Inc. and Subsidiary** (the "School") as of June 30, 2012 and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion 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. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Charter School of the Dunes, Inc. and Subsidiary as of June 30, 2012, and the consolidated changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Fitzgerald Isaac LLC

Indianapolis, IN
June 12, 2013

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Consolidated Statement of Financial Position

<u>Assets</u>	<u>June 30, 2012</u>
Current assets:	
Cash and cash equivalents	\$ 742,656
Accounts receivable:	
State education support	1,504,235
Grants	70,539
Prepaid expenses	40,199
Total current assets	<u>2,357,629</u>
Property and equipment:	
Land	424,566
Leasehold improvements	1,293,372
Furniture and equipment	783,366
Less: accumulated depreciation	<u>(1,590,362)</u>
Property and equipment, net	<u>910,942</u>
	<u>\$ 3,268,571</u>
<u>Liabilities and Net Assets</u>	
Current liabilities:	
Accounts payable and accrued expenses	\$ 397,289
Current portion of capital lease obligation	12,894
Refundable advances	4,022
Total current liabilities	<u>414,205</u>
Accrued interest on Common School Fund loans	202,271
Long-term debt	1,660,668
Capital lease obligation	24,780
Total liabilities	<u>2,301,924</u>
Unrestricted net assets	<u>966,647</u>
	<u>\$ 3,268,571</u>

See accompanying notes to financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Consolidated Statement of Activities

	Year Ended June 30, 2012
<u>Revenue, Gains and Support</u>	
State education support	\$ 3,008,509
Grant revenue	507,629
Student fees	36,756
Interest	3,299
Contributions	1,364
Other	47,124
Total revenue, gains and support	<u>3,604,681</u>
 <u>Expenses</u>	
Program services:	
Educational instruction	2,625,016
Education support	663,163
Administrative	950,463
Total expenses	<u>4,238,642</u>
 Decrease in net assets	 (633,961)
 Net assets, beginning of year	 <u>1,600,608</u>
 Net assets, end of year	 <u>\$ 966,647</u>

See accompanying notes to financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Consolidated Statement of Cash Flows

	Year Ended June 30, 2012
<u>Operating Activities</u>	
Change in net assets	\$ (633,961)
Adjustments to reconcile change in net assets to cash flows from operating activities:	
Depreciation	169,115
Change in:	
Accounts receivable	87,663
Prepaid expenses	(2,380)
Accounts payable and accrued expenses	43,905
Net cash used by operating activities	<u>(335,658)</u>
<u>Investing Activities</u>	
Acquisition of property and equipment	(41,523)
Net cash used by investing activities	<u>(41,523)</u>
<u>Financing Activities</u>	
Principal reduction of capital lease obligation	(6,936)
Net cash used by financing activities	<u>(6,936)</u>
Net decrease in cash	(384,117)
Cash and cash equivalents, beginning of year	<u>1,126,773</u>
Cash and cash equivalents, end of year	<u>\$ 742,656</u>
Supplemental disclosures:	
Cash paid for interest expense	\$ 3,251
Non-cash investing and financing activities:	
Equipment obtained under capital lease	\$ 44,610

See accompanying notes to financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

General

Charter School of the Dunes, Inc. is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. Charter School of the Dunes, Inc. operates a public charter school established under Indiana Code 20-24 and is sponsored by Ball State University. Charter School of the Dunes, Inc. maintains a controlling interest in CSOTD Holdings, Inc., a public benefit not-for-profit organization established in April 2012 and organized for the purpose of construction of a building to serve as an educational facility.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Charter School of the Dunes, Inc. and its subsidiary, CSOTD Holdings, Inc., collectively referred to as the "School". All significant intercompany transactions and balances have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable relate primarily to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Subsequent Events

The School evaluated subsequent events through June 12, 2013, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required. See Notes 7 and 8 for disclosure of subsequent events.

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in equal monthly installments in January through December following the start of the school year. Revenue is recognized in the school year in which educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs, minor replacement costs, and equipment purchases with a unit cost of less than \$1,000 are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Leasehold improvements.....	10 years
Furniture and equipment	3 to 20 years

Taxes on Income

Charter School of the Dunes, Inc. and its subsidiary, CSOTD Holdings, Inc., have received determinations from the U.S. Treasury Department stating that they qualify under the provisions of Section 501(c)(3) of the Internal Revenue Code as tax-exempt organizations; however, each entity would be subject to tax on income unrelated to its tax-exempt purpose. For the year ended June 30, 2012, no accounting for federal and state income taxes was required to be included in the accompanying consolidated financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income, Continued

Professional standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2011, 2010, and 2009 are open to audit for both federal and state purposes.

(2) Accounts Receivable

Accounts receivable for state education support as of June 30, 2012 represents amounts due from the State of Indiana relating to the following sources:

Basic grant.....	\$1,423,804
Special education grant	<u>80,431</u>
	<u>\$1,504,235</u>

Tuition support is determined by state law and is dependent upon the geographic location of the school and is indexed to the poverty data of the enrolled students. The payment schedule is likewise determined by state law with tuition support payable in equal monthly installments in the calendar year following the start of the school year. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 3).

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(3) Long-Term Debt

Long-term debt at June 30, 2012 was comprised of two notes payable to the Indiana Common School Fund. The notes require semi-annual payments of principal and interest over a period of 20 years with interest at 4% per annum. The Indiana Common School Fund granted a moratorium on loan payments until July 1, 2013. The notes mature January 1, 2033 and are secured by unpaid tuition support distributions (see Note 2).

Future maturities of long-term debt are as follows:

Year Ended June 30:

2013	\$	-
2014		100,644
2015		100,644
2016		100,644
2017		100,644
Thereafter		<u>1,258,092</u>
		<u>\$1,660,668</u>

(4) Leases

The School leases computer equipment under a capital lease. At June 30, 2012, the cost and accumulated depreciation of the equipment relating to this lease were \$44,610 and \$6,196, respectively.

Following is a schedule of minimum lease payments under this lease and the present value of net minimum lease payments as of June 30, 2012.

Year Ended June 30:

2013	\$15,387
2014	16,788
2015	<u>9,793</u>
	41,968
Less: Amount representing interest	<u>(4,294)</u>
	<u>\$37,674</u>

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(4) Leases, Continued

The School leases a building used as its school facility under an operating lease agreement with Gary Art Works, Inc. The School also leases modular classrooms from Innovative Modular Solutions to supplement the facility. The School has the option to extend the facility lease through March 2021. Under the leases, the School is responsible for repairs, maintenance, and utilities. The School also leases office equipment under an operating lease which expires in October 2016.

Total lease expense under operating leases for the year ended June 30, 2012 was \$238,300. A schedule of minimum lease obligations as of June 30, 2012 follows:

Year Ended June 30:

2013	\$233,939
2014	43,939
2015	11,939
2016	11,939
2017	3,980

(5) Retirement Plan

As of January 1, 2011, retirement benefits for school employees have been provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 7.25% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was \$137,727 for the year ended June 30, 2012.

School personnel can also participate in a Section 403(b) retirement plan offered by American Quality Schools Corporation. Employees may contribute up to 100% of their salary provided they are over 18 years of age and have at least 30 days of employment. There is no employer match.

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(6) Refundable Advances

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2012, the School had refundable grant advances in excess of expenditures of \$4,022.

(7) Commitments

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. The charter remains in effect until June 30, 2013, and is renewable thereafter by mutual consent. Payments under this agreement were \$85,248 for the year ended June 30, 2012.

In April 2013, the School severed its relationship with Ball State University. Effective July 1, 2013, the School will operate under a charter granted by Calumet College of St. Joseph.

The School has contracted with American Quality Schools Corporation, a for-profit organization incorporated in the State of Illinois, to provide management, administrative and educational programming services. Under the terms of the agreement, the School has agreed to pay an amount equal to 7% of revenues, as defined, for such services. Payments under this contract were \$225,882 for the year ended June 30, 2012. The agreement is renewable annually.

(8) Building Construction

In December 2011, the School committed to the construction of a new education facility, which was contingent upon the School securing \$4,000,000 of New Market Tax Credits to complement \$8,400,000 of financing under Qualified School Construction Bonds. All conditions were met and construction commenced in July 2012. The total cost of the project is \$12,400,000 and is expected to be completed in July 2013.

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(9) Risks and Uncertainties

The School provides education services to families residing in Lake and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2012, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits are maintained at BMO Harris Bank and frequently exceed the FDIC insurance limit.

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(10) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated among the programs and services benefited. Following is a summary of expenses comprising each program and service for the year ended June 30, 2012:

	<u>Educational Instruction</u>	<u>Education Support</u>	<u>Admini- strative</u>
Salaries and wages.....	\$1,464,425	228,575	292,691
Employee benefits	400,908	38,750	40,005
Staff development and recruitment.....	35,371	-	1,605
Academic services	-	-	225,882
Authorizer oversight fee.....	-	-	85,248
Food service	-	218,785	-
Transportation service	-	96,655	-
Other professional services	96,929	75,055	160,896
Property and textbook rental.....	76,072	-	-
Classroom, kitchen and office supplies.....	80,999	5,343	29,059
Occupancy	301,197	-	-
Depreciation	169,115	-	-
Interest	-	-	59,604
Other	-	-	<u>55,473</u>
	<u>\$2,625,016</u>	<u>663,163</u>	<u>950,463</u>

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Other Reports

Year Ended June 30, 2012

The report presented herein was prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of Charter School of the Dunes, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.