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STATE OF INDIANA

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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

June 17, 2014

Charter School Board
Charter School of the Dunes, Inc.
7300 East 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, 2012 to June 30, 2013. 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, 2013, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the findings in the report. Pages 28 through 30 contain two current audit findings. Management's response is on page 32.

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.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidated Financial Statements and Federal Single Audit Report

June 30, 2013 and 2012

Fitzgerald Isaac LLC
Certified Public Accountants

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

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Fitzgerald Isaac LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Charter School of the Dunes, Inc. and Affiliate**, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012 and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Charter School of the Dunes, Inc. and its affiliate as of June 30, 2013 and 2012 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 18, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Likewise, the consolidating schedule of financial position on page 20 and the consolidating schedule of activities on page 21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2014 on our consideration of Charter School of the Dunes, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Charter School of the Dunes, Inc.'s internal control over financial reporting and compliance.

Fitzgerald / Isaac LLC

Indianapolis, IN
May 27, 2014

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidated Statements of Financial Position

Assets	June 30 2013	June 30 2012
Current assets:		
Cash	$ 91,872	742,656
Cash - lender restricted	4,326,318	-
Receivables:		
State education support	-	1,504,235
Grants	114,804	127,288
Interest income	53,885	-
Prepaid expenses and other assets	29,142	40,199
Total current assets	4,616,021	2,414,378
Note receivable	9,237,456	-
Deferred loan costs	124,500	-
Property and equipment:		
Land	435,566	424,566
Leasehold improvements	-	1,192,847
Furniture and equipment	183,612	783,366
Textbooks	131,479	-
Construction in progress	8,437,594	100,525
Less: accumulated depreciation	(112,705)	(1,590,362)
Property and equipment, net	9,075,546	910,942
	$ 23,053,523	3,325,320
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 432,268	397,289
Current portion of long-term debt	297,000	-
Current portion of capital lease obligation	16,788	12,894
Refundable advances	-	4,022
Total current liabilities	746,056	414,205
Accrued interest on Common School Fund loans	-	202,271
Long-term debt	20,808,000	1,660,668
Capital lease obligation	8,090	24,780
Total liabilities	21,562,146	2,301,924
Unrestricted net assets	1,491,377	1,023,396
	$ 23,053,523	3,325,320

See accompanying notes to financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidated Statements of Activities

	Year Ended June 30	
Revenue and Support	2013	2012
State education support	$ 3,472,651	3,008,509
Grant revenue	1,078,367	566,400
Student fees	22,040	36,756
Interest income	90,427	3,299
Contributions	2,959	1,364
Other	56,456	45,102
Total revenue and support	4,722,900	3,661,430
Expenses		
Program services:		
Educational instruction	3,095,229	2,625,016
Education support	802,083	663,163
Administrative	827,967	950,463
Total expenses	4,725,279	4,238,642
Change in net assets before non-operating income	(2,379)	(577,212)
Non-Operating Income		
Gain due to changes in legislative funding	192,438	-
Gain on sale of assets	207,922	-
Developer fees	70,000	-
Change in net assets	467,981	(577,212)
Net assets, beginning of year	1,023,396	1,600,608
Net assets, end of year	$ 1,491,377	1,023,396

See accompanying notes to financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidated Statements of Cash Flows

	Year Ended June 30	
Operating Activities	2013	2012
Change in net assets	$ 467,981	(577,212)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Gain due to changes in legislative funding	(192,438)	-
Gain on sale of assets	(207,922)	-
Depreciation	205,552	169,115
Change in:		
Accounts receivable	(274,093)	30,914
Prepaid expenses and other assets	11,057	(2,380)
Accounts payable and accrued expenses	101,406	43,905
Refundable advances	(4,022)	-
Net cash provided (used) by operating activities	107,521	(335,658)
Investing Activities		
Acquisition of property and equipment	(8,162,235)	(41,523)
Loan to Chase NMTC CSOTD Investment Fund, LLC	(9,237,456)	-
Net cash used by investing activities	(17,399,691)	(41,523)
Financing Activities		
Principal reduction of capital lease obligation	(12,796)	(6,936)
Proceeds from long-term indebtedness	21,105,000	-
Cash restricted by lender for construction related costs	(4,326,318)	-
Payment of loan closing costs	(124,500)	-
Net cash provided (used) by financing activities	16,641,386	(6,936)
Net decrease in cash	(650,784)	(384,117)
Cash, beginning of year	742,656	1,126,773
Cash, end of year	$ 91,872	742,656
Supplemental disclosures:		
Cash paid for interest expense	$ 33,082	3,251
Non-cash investing and financing activities:		
Equipment obtained under capital lease	$ -	44,610

See accompanying notes to financial statements.

(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 that operates a public charter school established under Indiana Code 20-24. 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 affiliate, 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.

Deferred Loan Costs

Costs associated with securing financing under the loan agreement with BMO Harris Bank have been deferred and will be amortized beginning in 2014 over the term of the loan using the straight-line method.

(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 other 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 academic school year. Revenue is recognized in the 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 and minor replacement costs 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

Construction in progress represents costs incurred to date on construction of a new school facility. The project is planned to be completed by December 2013 at the projected cost of $12,800,000. No depreciation has been provided during the construction phase.

Taxes on Income

Charter School of the Dunes, Inc. and its affiliate, 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 years ended June 30, 2013 and 2012, no accounting for federal and state income taxes was required to be included in the accompanying consolidated financial statements.

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income, Continued

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending 2012, 2011, and 2010 are open to audit for both federal and state purposes.

Subsequent Events

The School evaluated subsequent events through May 27, 2014, 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.

Reclassifications

Certain figures for 2012 that were previously reported have been reclassified for comparative purposes.

(2) Legislative Funding Changes

In 2013, the Indiana legislature passed amendments to the Indiana Charter Schools Act that altered the manner in which charter schools are funded. Prior to enactment, charter schools received funding in monthly installments in the calendar year following the start of the academic school year. As such, the School followed the practice of recognizing at June 30 of each year a receivable for payments to be made to the School in the subsequent July through December time period, which represented amounts due for services rendered. Effective July 1, 2013, charter school funding will be paid following the State of Indiana fiscal year of July to June, which is similar to the School's academic year. As part of this legislative amendment, the funding owed to the School under prior legislation for the period July to December 2013 will no longer be paid.

(2) Legislative Funding Changes, Continued

In the same session, the Indiana legislature appropriated funding from the Indiana general fund to repay Indiana Common School Fund loans and accrued interest outstanding as of June 30, 2013 on behalf of charter schools. The School has applied for and received repayment of its indebtedness under these obligations as of June 30, 2013.

The effect of these legislative amendments has been reflected in the accompanying statement of activities as a gain due to changes in legislative funding and is comprised of the following:

Repayment of Common School Fund loans	$1,660,668
Repayment of accrued interest on Common School Fund loans	268,698
	1,929,366
Elimination of School funding	(1,736,928)
	$ 192,438

(3) Restricted Cash

Restricted cash represents loan proceeds received by CSOTD Holdings, Inc. that are restricted by the lender for the purposes of payment of construction costs and financing related costs. Restricted cash was comprised of the following account balances as of June 30, 2013:

Construction disbursement	$3,251,867
Asset management fees	657,045
Stabilization asset management fee	65,091
Operating reserve	352,315
	$4,326,318

(4) Note Receivable

The note receivable is due from Chase NMTC CSOTD Investment Fund, LLC, an entity created to facilitate the funding and construction of the School's facility. The note is carries and interest rate of 1% per annum and is secured by all assets of Chase NMTC CSOTD Investment Fund, LLC consisting primarily of its interest in NNMF Sub-CDE XLII, LLC. Interest only is payable on the note until December 1, 2019 at which time it converts to an amortizing loan, payable in equal installments of principal and interest through December 1, 2042.

The School borrowed funds from BMO Harris Bank, which combined with its own resources were loaned to Chase NMTC CSOTD Investment Fund, LLC. Chase NMTC CSOTD Investment Fund, LLC was able to secure an additional equity investment in order to complete the funding required for the project. Chase NMTC CSOTD Investment Fund, LLC, in turn, loaned the amount necessary for construction of the facility to CSOTD Holding, Inc. through an affiliated entity (NNMF Sub-CDE XVII, LLC). See Note 6 for information regarding these debt obligations.

(5) Accounts Receivable

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

Basic grant	$1,423,804
Special education grant	80,431
	$1,504,235

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 and other factors. 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 academic school year. Effective July 1, 2013, tuition support will be paid in monthly installments that coincide with the School's fiscal year (see Note 2).

(6) Long-Term Debt

Long-term debt at June 30, 2013 and 2012 consisted of the following:

	2013	2012
Note payable to BMO Harris Bank	$ 8,300,000	-
Note payable to NNMF Sub-CDE XVII, LLC	9,237,456	-
Note payable to NNMF Sub-CDE XVII, LLC	3,567,544	-
Notes payable to the Indiana Common School Fund	-	1,660,668
	21,105,000	1,660,668
Less: current portion	(297,000)	-
	$20,808,000	1,660,668

The note payable to BMO Harris Bank requires interest payments only until January 2014, when it converts to an amortizing loan with a term of 25 years. The loan provides for interest at 5.39%, of which interest at 4.91% will be paid by the U.S. Treasury from the purchase of Qualified School Construction Bonds. The loan is secured by a blanket lien on all School business assets, including a collateral assignment of the School's loan to Chase NMTC CSOTD Investment Fund, LLC. The loan agreement contains certain covenants that limit the School's ability to create liens, incur debt, and change management. The loan agreement also contains covenants requiring the maintenance of required reserves, and establishes a minimum debt service coverage ratio and minimum levels of student enrollment.

The notes payable to NNMF Sub-CDE XVII, LLC relate to borrowings by CSOTD Holdings, Inc. to finance the construction of the school facility. The loans each provide for interest only at .9% per annum to be paid until December 1, 2019, when they convert to amortizing loans with a term of 27 years. The loans are secured by all business assets.

(6) Long-Term Debt, Continued

The notes payable to the Indiana Common School Fund consisted of two loans, each of which provided for payments over a 20-year term with interest at 4% per annum. In 2013 and 2012, the loans were under a moratorium on loan payments, but interest continued to accrue. In 2013, the loans were repaid with funding appropriated from the Indiana general fund (see Note 2).

Future maturities of long-term debt are as follows:

Year Ended June 30:	
2014	$ 297,000
2015	432,000
2016	507,000
2017	583,000
2018	574,000
Thereafter	18,712,000
	$21,105,000

(7) Leases

The School leases computer equipment under a capital lease. At June 30, 2013, the cost and accumulated depreciation of the equipment relating to this lease were $44,610 and $21,066, respectively ($44,610 and $6,196, respectively, as of June 30, 2012).

Following is a schedule of minimum lease payments under this lease and the present value of net minimum lease payments as of June 30, 2013:

Year Ended June 30:	
2014	$16,788
2015	9,793
	26,581
Less: Amount representing interest	(1,703)
	$24,878

(7) Leases, Continued

The School leased a building used as its school facility under an operating lease agreement with Gary Art Works, Inc. The School also leased modular classrooms from Innovative Modular Solutions to supplement the facility. The School had the option to extend the facility lease through March 2021. Under the leases, the School was responsible for repairs, maintenance, and utilities. The School terminated these leases as of June 30, 2013. The School also leases office equipment under an operating lease which expires in October 2016.

Total lease expense under operating leases for the years ended June 30, 2013 and 2012 was $262,171 and $238,300. A schedule of minimum lease obligations as of June 30, 2013 follows:

Year Ended June 30:	
2014	$43,939
2015	11,939
2016	11,939
2017	3,980

(8) Retirement Plan

Retirement benefits for school employees are 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 $171,264 and $137,727 for the years ended June 30, 2013 and 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.

(9) Commitments

In 2013 and 2012, the School operated under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercised certain oversight responsibilities. Under this charter, the School agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. Payments under this agreement were $48,576 and $85,248 for the years ended June 30, 2013 and 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 not-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 5% of revenues, as defined, for such services. Payments under this contract were $82,874 and $225,882 for the years ended June 30, 2013 and 2012. The agreement is renewable annually.

Associated with the financing of the school facility, the School is obligated to pay certain administrative fees. Upon completion of construction, the School is to pay National New Markets Fund, LLC a Stabilization Asset Management Fee in the amount of $65,000. The School has also agreed to pay NNMF Sub-CDE XVII, LLC an asset management fee in the amount of $78,571 per year for as long as the construction project loans remain outstanding. Expense for the year ended June 30, 2013 relating to these fees was $53,909.

(10) Accounting Correction

In 2013, it was determined that revenue for 2012 under a specific grant had not been recognized in relation to allowable grant costs. This error resulted in understatements of net assets as of June 30, 2012 and revenue for year ended June 30, 2012 by $56,749. The correction in accounting has been reflected by restating the accompanying financial statements for the year ended June 30, 2012. This matter had no effect on the financial statements for the year ended June 30, 2013.

(11) 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, 2013 and 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.

(12) 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 years ended June 30, 2013 and 2012:

	2013		
	Educational Instruction	Education Support	Administrative
Salaries and wages	$1,916,118	268,599	353,987
Employee benefits	476,395	55,403	58,451
Staff development and recruitment	29,272	-	1,573
Academic services	-	-	54,398
Authorizer oversight fee	-	-	48,583
Food service	-	301,096	-
Transportation service	-	121,285	-
Other professional services	121,153	50,931	71,216
Property and textbook rental	577	-	-
Classroom, kitchen and office supplies	54,664	4,769	26,890
Occupancy	291,537	-	-
Depreciation	205,513	-	-
Interest	-	-	109,468
Asset management fees	-	-	39,261
Other	-	-	64,140
	$3,095,229	802,083	827,967

(12) Functional Expense Reporting, Continued

	2012		
	Educational Instruction	Education Support	Administrative
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	-	-	55,473
	$2,625,016	663,163	950,463

CHARTER SCHOOL OF THE DUNES, INC.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Awards Expended
U.S. DEPARTMENT OF AGRICULTURE			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		$ 30,608
National School Lunch Program	10.555		142,362
Total for cluster			172,970
U.S. DEPARTMENT OF EDUCATION			
Pass-through Indiana Department of Education			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010		546,235
Improving Teacher Quality State Grants	84.367		125,322
ARRA - Education Jobs Fund	84.410		83,059
Total for federal grantor agency			754,616
Total federal awards expended			$ 927,586

See accompanying Independent Auditor's Report.
See accompanying notes to this schedule.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Charter School of the Dunes, Inc. ("the School") under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CHARTER SCHOOL OF THE DUNES, INC. AND SUBSIDIARY

Consolidating Schedule of Financial Position

	June 30, 2013			
Assets	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consoli-dating Entries	Consolidated
Current assets:				
Cash	$ 91,872	-	-	91,872
Cash--lender restricted	352,315	3,974,003	-	4,326,318
Grants receivable	114,804	-	-	114,804
Interest income receivable	53,885			53,885
Prepaid expense and other assets	29,142	-	-	29,142
Total current assets	642,018	3,974,003	-	4,616,021
Note receivable	9,237,456	-	-	9,237,456
Deferred loan costs	124,500	-	-	124,500
Property and equipment:				
Land	11,000	424,566	-	435,566
Furniture and equipment	183,612	-	-	183,612
Textbooks	131,479	-	-	131,479
Construction in progress	-	8,437,594	-	8,437,594
Less: accumulated depreciation	(112,705)	-	-	(112,705)
Property and equipment, net	213,386	8,862,160	-	9,075,546
	$ 10,217,360	12,836,163	-	23,053,523
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 365,042	67,226	-	432,268
Current portion of long-term debt	297,000	-	-	297,000
Current portion of capital lease obligation	16,788	-	-	16,788
Total current liabilities	678,830	67,226	-	746,056
Long-term debt	8,003,000	12,805,000	-	20,808,000
Capital lease obligation	8,090	-	-	8,090
Total liabilities	8,689,920	12,872,226	-	21,562,146
Net assets (deficiency)	1,527,440	(36,063)	-	1,491,377
	$ 10,217,360	12,836,163	-	23,053,523

See accompanying Independent Auditor's Report.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidating Schedule of Activities

	Year Ended June 30, 2013			
Revenue and Support	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consoli-dating Entries	Consolidated
State education support	$ 3,472,651			3,472,651
Grant revenue	1,078,367	-	-	1,078,367
Student fees	22,040	-	-	22,040
Interest income	87,229	3,198	-	90,427
Contributions	2,959	-	-	2,959
Other	56,456	-	-	56,456
Total revenue and support	4,719,702	3,198	-	4,722,900
Expenses				
Program services:				
Educational instruction	3,095,229	-	-	3,095,229
Education support	802,083	-	-	802,083
Administrative	788,706	39,261	-	827,967
Total expenses	4,686,018	39,261	-	4,725,279
Change in net assets before non-operating income	33,684	(36,063)	-	(2,379)
Non-Operating Income				
Gain due to changes in legislative funding	192,438	-	-	192,438
Gain on sale of assets	207,922	-	-	207,922
Developer fees	70,000	-	-	70,000
Change in net assets	504,044	(36,063)	-	467,981
Net assets, beginning of year	1,023,396	-	-	1,023,396
Net assets (deficiency), end of year	$ 1,527,440	(36,063)	-	1,491,377

See accompanying Independent Auditor's Report.

Fitzgerald Isaac LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S 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*

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

We have audited, in accordance with the 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, the financial statements of **Charter School of the Dunes, Inc.** (the "School") **and Affiliate**, which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 27, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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,* which are described in the accompanying schedule of findings and questioned costs as item 2013-2.

The School's Response to Findings

The School's response to the findings identified in our audit are described in the accompanying schedule of schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fitzgerald/Isaac LLC

Indianapolis, IN
May 27, 2014

Fitzgerald Isaac LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited **Charter School of the Dunes, Inc.'s** (the "School") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2013. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

9245 North Meridian Street, Suite 302
Indianapolis, Indiana 46260
317-844-8300 Fax 317-848-6555
www.fitzgeraldisaac.net

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, Charter School of the Dunes, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2013-2. Our opinion on each major federal program is not modified with respect to these matters.

The School's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Charter School of the Dunes, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified one deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-2 that we consider to be a significant deficiency.

The School's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Fitzgerald / Isaac LLC

Indianapolis, IN
May 27, 2014

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

I. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	Yes
Noncompliance noted which is material to financial statements:	No

Federal Awards

Internal control over major programs:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	Yes

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

I. Summary of Auditor's Results, Continued

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.010	Title I, Part A Cluster Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee:	No

II. Financial Statement Findings

SIGNIFICANT DEFICIENCY

FINDING 2013-1 FINANCIAL REPORTING

Condition
In 2013, it was determined that revenue for fiscal year 2012 under a federal grant program had not been recognized in relation to allowable grant costs.

Cause
Grant funding was awarded near the end of the 2012 fiscal year, and was not appropriately identified as pertaining to fiscal year 2012.

Effect
Revenue for financial accounting purposes was understated for fiscal year 2012 by $56,749.

Recommendation
Procedures should be implemented to assure that any potential grant funding be identified at the time of application and that such information be communicated to financial accounting personnel.

III. Federal Award Findings and Questioned Costs

FINDING NO. 2013-2 EMPLOYEE TIME RECORDS

Federal Agency:	U.S. Department of Education
Pass-Through Agency:	Indiana Department of Education
Federal Program:	Grants to Local Educational Agencies
CFDA Number:	84.010
Award Year:	FY 2012-13

Questioned Costs

Condition
The School operates a school-wide Title I program; however, it did not maintain time records to support employee attendance records or the allocation of salaries to Title I activities.

Criteria
OMB Circular A-87, Attachment B, paragraph 8.h states in part:
"Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

III. Federal Award Findings and Questioned Costs, Continued

Criteria, Continued

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

a) More than one Federal award.

b) A Federal award and a non-Federal award.

c) An indirect cost activity and a direct cost activity.

d) Two or more indirect activities which are allocated using different allocation bases, or

e) An unallowable activity and a direct or indirect cost activity."

Cause

The School had not established procedures to obtain and compile employee data for time spent on Title I activities.

Effect

The failure to properly document employee attendance and time could result in funds being inappropriately charged to grant programs.

Context

Due to the lack of documentation, it was not possible to determine if salaries were improperly allocated. $ -0-

Recommendation

We recommend that the School implement a process for reporting time and effort spent by employees on Title I program activities.

Views of Responsible Officials and Planned Corrective Action

See attached letter of response from School officials.

Other Reports

Year Ended June 30, 2013

The reports presented herein were 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*.

Charter School of the Dunes

7300 E. Melton Road, Gary, IN 46403 ♦ Phone: (219) 939-9690 ♦ Fax: (219) 939-9031
www.csdunes.org

May 29, 2014

Mr. Eugene P. Fitzgerald,

This letter is in response to the findings in the July 1, 2012 to June 30, 2013 Audit Report.

- **Financial Reporting**. We understand the need to minimize any reclassing having to do with the prior fiscal year resulting in the income and expenses to be incorrectly reported. We will not have any reclasses this year; each of the grants is being spent down appropriately. We have put in place measures to assure that our bookkeeping company is informed in a timely manner to anticipate and record revenue to the correct classification.

- **Employee Time Records**. We have implemented a process for reporting time and effort spent by employees on Title I program activities. These certifications will be signed by the employee's supervisor and collected on a semi-annual basis. These measures will insure that salaries will be properly allocated and charged to grant programs.

Please feel free to contact me if you have any questions.

Danielle Sleight
COO/Founder
Charter School of the Dunes
dsleight@csdunes.org