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STATE OF INDIANA
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April 8, 2015

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, 2013 to June 30, 2014. 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, 2014, 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 finding in the report. Pages 30 and 31 contain one current audit finding. Management's response and corrective action is provided in the Attachment.

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, 2014 and 2013

Fitzgerald Isaac LLC
Certified Public Accountants

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Table of Contents

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, 2014 and 2013, 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.

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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, 2014 and 2013 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 schedules of financial position on pages 20 and 21 and the consolidating schedules of activities on pages 22 and 23 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 March 19, 2015 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
March 19, 2015

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidated Statements of Financial Position

	June 30	
Assets	2014	2013
Current assets:		
Cash	$ 280,251	91,872
Cash - lender restricted	99,572	3,747,845
Accounts receivable	11,696	-
Grants receivable	94,567	114,804
Interest income receivable	53,885	53,885
Prepaid expenses	772	29,142
Total current assets	540,743	4,037,548
Cash - lender restricted	460,064	578,473
Note receivable	9,237,456	9,237,456
Deferred loan costs	712,801	124,500
Property and equipment:		
Land	485,842	476,967
Building and improvements	11,095,430	-
Furniture and equipment	329,011	183,612
Textbooks	205,726	131,479
Construction in progress	-	8,381,571
Less: accumulated depreciation	(510,358)	(112,705)
Property and equipment, net	11,605,651	9,060,924
	$ 22,556,715	23,038,901
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	$ 713,172	451,911
Current portion of long-term debt	457,698	297,000
Current portion of capital lease obligation	9,535	16,788
Total current liabilities	1,180,405	765,699
Long-term debt	20,465,941	20,808,000
Capital lease obligation	-	8,090
Total liabilities	21,646,346	21,581,789
Unrestricted net assets	910,369	1,457,112
	$ 22,556,715	23,038,901

See accompanying notes to financial statements.

Consolidated Statements of Activities

	Year Ended June 30	
Revenue and Support	2014	2013
State education support	$ 3,892,327	3,472,651
Grant revenue	904,641	1,078,367
Student fees	27,829	22,040
Interest income	94,301	90,427
Contributions	10,251	2,959
Fundraising	17,346	-
Other	12,235	56,456
Total revenue and support	4,958,930	4,722,900
Expenses		
Program services	4,490,832	3,897,312
Management and general	1,079,941	862,232
Total expenses	5,570,773	4,759,544
Change in net assets before non-operating income	(611,843)	(36,644)
Non-Operating Income		
Gain due to changes in legislative funding	-	192,438
Gain on sale of assets	-	207,922
Developer fees	65,100	70,000
Change in net assets	(546,743)	433,716
Net assets, beginning of year	1,457,112	1,023,396
Net assets, end of year	$ 910,369	1,457,112

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	2014	2013
Change in net assets	$ (546,743)	433,716
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	397,653	205,552
Amortization of deferred loan fees	12,503	-
Change in:		
Accounts receivable	(11,696)	-
Grants receivable	20,237	(220,208)
Interest income receivable	-	(53,885)
Prepaid expenses	28,370	11,057
Accounts payable and accrued expenses	261,261	121,049
Refundable advances	-	(4,022)
Net cash provided by operating activities	161,585	92,899
Investing Activities		
Acquisition of property and equipment	(3,408,306)	(8,147,613)
Loan to Chase NMTC CSOTD Investment Fund, LLC	-	(9,237,456)
Net cash used by investing activities	(3,408,306)	(17,385,069)
Financing Activities		
Principal reduction of capital lease obligation	(15,343)	(12,796)
Principal reduction of long-term indebtedness	(316,239)	-
Proceeds from long-term indebtedness	-	21,105,000
Restricted cash expended for construction related costs	3,766,682	-
Cash restricted by lender for construction related costs	-	(4,326,318)
Payment of loan closing costs	-	(124,500)
Net cash provided by financing activities	3,435,100	16,641,386
Net increase (decrease) in cash	188,379	(650,784)
Cash, beginning of year	91,872	742,656
Cash, end of year	$ 280,251	91,872
Supplemental disclosures:		
Cash paid for interest expense (including capitalized interest of $59,640 and $40,656)	$ 191,320	73,738
Equipment obtained in exchange for note payable	134,878	-

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.

Grants Receivable

Grants receivable relate 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 loan agreements with BMO Harris Bank and NNMF SUB-CDE XVII, LLC have been deferred and are being amortized over the terms of the loans using the straight-line method. Amortization of deferred loan costs is included in interest expense and amounted to $12,503 for the year ended June 30, 2014.

(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 monthly installments in July through June coinciding with 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:

Building and improvements	35 years
Furniture and equipment	3 to 5 years
Textbooks	5 years

Construction in progress at June 30, 2013 represented costs incurred in construction of a new school facility. The project was substantially completed as of the beginning of the 2014 academic school year. No depreciation was 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, 2014 and 2013, 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 2013, 2012, and 2011 are open to audit for both federal and state purposes.

Subsequent Events

The School evaluated subsequent events through March 19, 2015, 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 2013 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 is 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 was eliminated.

(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 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, 2014 and 2013:

	2014	2013
Construction disbursement	$ -	3,251,867
Asset management fees.	559,535	657,045
Stabilization asset management fee	101	65,091
Operating reserve	-	352,315
	$ 559,636	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 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 Holdings, Inc. through an affiliated entity (NNMF SUB-CDE XVII, LLC). See Note 5 for information regarding these debt obligations.

(5) Long-Term Debt

Long-term debt at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Note payable to BMO Harris Bank	$8,003,000	8,300,000
Note payable to NNMF SUB-CDE XVII, LLC ..	9,237,456	9,237,456
Note payable to NNMF SUB-CDE XVII, LLC ..	3,567,544	3,567,544
Note payable to Food Service Professionals, Inc.	115,639	-
	20,923,639	21,105,000
Less: current portion..	(457,698)	(297,000)
	$20,465,941	20,808,000

(5) Long-Term Debt, Continued

The note payable to BMO Harris Bank required interest payments only until January 2014, when it converted to an amortizing loan with a term of 25 years. The loan provides for interest at 5.39%, of which interest at 4.91% is 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 School was not in compliance with the debt service coverage ratio and student enrollment requirement for the 2014 fiscal year.

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.

The note payable to Food Service Professionals, Inc. is non-interest bearing and is payable in monthly installments of $2,142 through December 2019. The note is collateralized by specific items of equipment.

Future maturities of long-term debt are as follows:

Year Ended June 30:	
2015	$457,698
2016	532,698
2017	608,698
2018	599,698
2019	583,847
Thereafter	18,141,000
	$20,923,639

(6) Leases

The School leases computer equipment under a capital lease. At June 30, 2014, the cost and accumulated depreciation of the equipment relating to this lease were $44,610 and $35,936, respectively ($44,610 and $21,066, respectively, as of June 30, 2013). Future minimum lease payments under this lease are $9,793 due in 2015, with $258 representing interest.

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. 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, 2014 and 2013 was $37,916 and $262,171. A schedule of minimum lease obligations as of June 30, 2014 follows:

Year Ended June 30:	
2015	$16,164
2016	16,164
2017	16,164
2018	16,164
2019	4,041

(7) 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 cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are established by the INPRS Board. Under the plans, the School contributes 7.5% of compensation for teaching faculty to TRF and 9.75% of compensation for other employees to PERF. Substantially all full-time employees are eligible to participate. Retirement plan expense was $191,153 and $171,264 for the years ended June 30, 2014 and 2013.

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.

(8) Accounting Correction

In 2014, the School determined that certain asset management fees related to the building construction should have been expensed in 2013. The School has corrected this error by restating previously issued financial statements. The effect of this correction has been to decrease the change in net assets for the year ended June 30, 2013 by $34,266.

(9) Contingency

In 2014, the School received a penalty assessment from the Internal Revenue Service in the amount of $50,000 relating to the late filing of Form 990, Return of Organization Exempt from Income Tax, for the year ended June 30, 2012. The School has filed an appeal of this assessment requesting that the penalty be waived. A final determination has not been made. No liability for this assessment has been included in the accompanying financial statements.

(10) Commitments

In 2013, the School operated under a charter granted by Ball State University. In April 2013, the School severed its relationship with Ball State University. Effective July 1, 2013, the School began operation under a charter granted by Calumet College of Saint Joseph. As the sponsoring organizations, Ball State University and Calumet College of Saint Joseph exercise certain oversight responsibilities. Under the charters, the School agreed to pay the sponsor an annual administrative fee equal to 3% of state tuition support. Payments under these agreements were $78,045 and $48,583 for the years ended June 30, 2014 and 2013.

The School 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 agreed to pay an amount equal to 5% of revenues, as defined, for such services. Expense under this contract was $82,874 for the year ended June 30, 2013. This agreement was terminated as of June 30, 2013.

Associated with the financing of the school facility, the School is obligated to pay certain administrative fees. Upon completion of construction, the School paid 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 years ended June 30, 2014 and 2013 relating to these fees was $155,401 and $53,909, respectively.

(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, 2014 and 2013, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits are maintained at BMO Harris Bank and are insured up to 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 between program and management services. Following is a summary of expenses comprising each program and service for the years ended June 30, 2014 and 2013:

	2014	
	Program Services	Management and General
Salaries and wages	$2,449,429	473,234
Employee benefits	622,347	96,626
Staff development and recruitment	29,964	2,907
Authorizer's oversight fee	-	78,045
Food service	208,809	-
Transportation service	253,510	-
Other professional services	150,284	125,256
Classroom, kitchen and office supplies	105,948	8,941
Occupancy	272,282	-
Depreciation	397,653	-
Interest	-	161,009
Insurance	-	31,218
Asset management fees	-	78,571
Other	606	24,134
	$ 4,490,832	1,079,941

(12) Functional Expense Reporting, Continued

	2013	
	Program Services	Management and General
Salaries and wages	$2,184,717	353,987
Employee benefits	531,798	58,451
Staff development and recruitment	29,272	1,573
Academic services	-	54,398
Authorizer's oversight fee	-	48,583
Food service	301,096	-
Transportation service	121,285	-
Other professional services	172,084	71,216
Classroom, kitchen and office supplies	59,433	26,890
Occupancy	291,537	-
Depreciation	205,513	-
Interest	-	109,468
Insurance	-	37,218
Asset management fees	-	73,526
Other	577	26,922
	$ 3,897,312	862,232

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

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		$ 51,881
National School Lunch Program	10.555		159,547
Total for cluster			211,428
U.S. DEPARTMENT OF EDUCATION			
Pass-through Indiana Department of Education			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010	14-9310/13-9310	495,950
Special Education Cluster			
Special Education - Grants to States	84.027	14214-575-PN01	147,338
Improving Teacher Quality State Grants	84.367	13-9310	49,675
Total for federal grantor agency			692,963
Total federal awards expended			$ 904,391

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, 2014

(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, 2014. 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 AFFILIATE

Consolidating Schedule of Financial Position

	June 30, 2014			
Assets	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consoli-dating Entries	Consolidated
Current assets:				
Cash	$ 280,251	-	-	280,251
Cash - lender restricted	-	99,572	-	99,572
Accounts receivable	11,696	-	-	11,696
Grants receivable	94,567	-	-	94,567
Due from affiliate	-	66,079	(66,079)	-
Interest income receivable	53,885	-	-	53,885
Prepaid expenses	772	-	-	772
Total current assets	441,171	165,651	(66,079)	540,743
Cash - lender restricted	-	460,064		460,064
Note receivable	9,237,456	-	-	9,237,456
Deferred loan costs, net	122,010	590,791	-	712,801
Property and equipment:				
Land	-	485,842	-	485,842
Building and improvements	-	11,095,430	-	11,095,430
Furniture and equipment	329,011	-	-	329,011
Textbooks	205,726	-	-	205,726
Less: accumulated depreciation	(246,181)	(264,177)	-	(510,358)
Property and equipment, net	288,556	11,317,095	-	11,605,651
	$ 10,089,193	12,533,601	(66,079)	22,556,715
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 626,303	86,869	-	713,172
Due to affiliate	66,079	-	(66,079)	-
Current portion of long-term debt	457,698	-	-	457,698
Current portion of capital lease obligation	9,535	-	-	9,535
Total current liabilities	1,159,615	86,869	(66,079)	1,180,405
Long-term debt	7,660,941	12,805,000	-	20,465,941
Capital lease obligation	-	-	-	-
Total liabilities	8,820,556	12,891,869	(66,079)	21,646,346
Net assets (deficiency)	1,268,637	(358,268)	-	910,369
	$ 10,089,193	12,533,601	(66,079)	22,556,715

See accompanying Independent Auditor's Report.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

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	3,395,530	-	3,747,845
Grants receivable	114,804	-	-	114,804
Interest income receivable	53,885			53,885
Prepaid expenses	29,142	-	-	29,142
Total current assets	642,018	3,395,530	-	4,037,548
Cash - lender restricted	-	578,473	-	578,473
Note receivable	9,237,456	-	-	9,237,456
Deferred loan costs	124,500	-	-	124,500
Property and equipment:				
Land	11,000	465,967	-	476,967
Furniture and equipment	183,612	-	-	183,612
Textbooks	131,479	-	-	131,479
Construction in progress	-	8,381,571	-	8,381,571
Less: accumulated depreciation	(112,705)	-	-	(112,705)
Property and equipment, net	213,386	8,847,538	-	9,060,924
	$ 10,217,360	12,821,541	-	23,038,901
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 365,042	86,869	-	451,911
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	86,869	-	765,699
Long-term debt	8,003,000	12,805,000	-	20,808,000
Capital lease obligation	8,090	-	-	8,090
Total liabilities	8,689,920	12,891,869	-	21,581,789
Net assets (deficiency)	1,527,440	(70,328)	-	1,457,112
	$ 10,217,360	12,821,541	-	23,038,901

See accompanying Independent Auditor's Report.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidating Schedule of Activities

	Year Ended June 30, 2014			
Revenue and Support	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consoli- dating Entries	Consolidated
State education support	$ 3,892,327	-	-	3,892,327
Grant revenue	904,641	-	-	904,641
Student fees	27,829	-	-	27,829
Interest income	92,905	1,396	-	94,301
Contributions	10,251	-	-	10,251
Fundraising	17,346	-	-	17,346
Rental income	-	125,000	(125,000)	-
Other	12,235	-	-	12,235
Total revenue and support	4,957,534	126,396	(125,000)	4,958,930
Expenses				
Program services	4,351,655	264,177	(125,000)	4,490,832
Management and general	929,781	150,160	-	1,079,941
Total expenses	5,281,436	414,337	(125,000)	5,570,773
Change in net assets before non-operating income	(323,902)	(287,941)	-	(611,843)
Non-Operating Income				
Developer fees	65,100	-	-	65,100
Change in net assets	(258,802)	(287,941)	-	(546,743)
Net assets (deficiency), beginning of year	1,527,440	(70,328)	-	1,457,112
Net assets (deficiency), end of year	$ 1,268,638	(358,269)	-	910,369

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	3,897,312	-	-	3,897,312
Management and general	788,706	73,526	-	862,232
Total expenses	4,686,018	73,526	-	4,759,544
Change in net assets before non-operating income	33,684	(70,328)	-	(36,644)
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	(70,328)	-	433,716
Net assets, beginning of year	1,023,396	-	-	1,023,396
Net assets (deficiency), end of year	$ 1,527,440	(70,328)	-	1,457,112

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 consolidated 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, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 19, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding No. 2014-001 to be a material weakness.

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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Indianapolis, IN
March 19, 2015

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, 2014. 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.

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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, 2014.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Indianapolis, IN
March 19, 2015

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
▪ Material weaknesses:	Yes
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
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:	None Reported
Type of auditor's report issued on compliance for major program:	Unmodified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	No

I. Summary of Auditor's Results, Continued

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	Title I, Part A Cluster
84.010	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

MATERIAL WEAKNESS

FINDING NO. 2014-001 FINANCIAL ACCOUNTING

Condition

In our audit, we noted various conditions that resulted in a misstatement of the financial statements relating primarily to the failure to record liabilities for employment contracts, purchase contracts, and operating expenses. Numerous audit entries were required to correct account balances.

II. Financial Statement Findings, Continued

Criteria
OMB Circular A-133, Subpart C, §___.300 states in part:

"The auditee shall…

(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...

(d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310…."

Cause
Processes were not in place to communicate information timely to the contracted accountants, reconcile account balances in a timely manner, and review financial statements.

Effect
The effect of these matters resulted in an overstatement of operating results for the 2014 fiscal year by $337,061. Such misstatement has been corrected in the accompanying financial statements.

Recommendation
Procedures should be implemented to assure prompt communication of contractual obligations to the contracted accountants. Financial reports should also be subject to formal internal review to assure that they reflect all significant transactions.

Views of Responsible Officials and Corrective Action
See attached letter of response from School officials.

III. Federal Award Findings and Questioned Costs

No matters are reportable.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS

FINDING 2013-001 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.

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

Current Status
The recommendation was adopted. No similar finding was noted in the 2014 audit.

FEDERAL AWARD FINDINGS

FINDING 2013-002 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

Condition
The School operated 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.

Recommendation
The auditor recommended that the School implement a process for reporting time and effort spent by employees on Title I program activities.

Current Status
The recommendation was adopted. No similar finding was noted in the 2014 audit.

<u>CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE</u>

Other Reports

Year Ended June 30, 2014

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

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2015, March 20

Mr. Eugene P. Fitzgerald,

This letter is in response to the findings in the July 1, 2013 to June 30, 2014 Financial Audit.

Financial Reporting: We will improve our accounting procedures to assure the various conditions that resulted in a misstatement of the financial statements will not occur again. We will work with our external accountants and internal staff to record liabilities for employment contracts, purchase contracts, and operating expenses correctly and in the period they were incurred.

Processes will be implemented to assure contractual obligations and other financial information is promptly communicated to the contracted accountants, account balances are reconciled in a timely manner, and a knowledgeable member of management regularly reviews the financial statements to assure correctness and that they reflect all significant transactions.

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

Thomas J Cera

Tom Cera
Board Chair
Charter School of the Dunes
tjcera@gmail.com