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February 28, 2014

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

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Comer, Nowling and Associates, P.C., Independent Public Accountants, for the period July 1, 2010 to June 30, 2011. 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, 2011, 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 29 through 31 contain four current audit findings. Pages 19 through 23 contain the status of four prior audit findings. Management's response is on pages 29 through 31.

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

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

State Board of Accounts

**Charter School of the
Dunes, Inc.**

**Financial Statements
For the Years Ended
June 30, 2011 and 2010
(With Single Audit and
Supplemental Audit Report)**



Certified Public Accountants

**CHARTER SCHOOL OF THE DUNES
TABLE OF CONTENTS**

	Page
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses	5
Statements of Cash Flows.....	7
Notes to Financial Statements	8
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	17
Notes to Schedule of Expenditures of Federal Awards	18
Summary Schedule of Prior Year Findings	19
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	24
Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	26
Schedule of Findings and Questioned Costs.....	28
OTHER REPORTS	32



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Charter School of the Dunes, Inc.
Lake County, Indiana

We have audited the accompanying statements of financial position of Charter School of the Dunes, Inc. (the "Organization") as of June 30, 2011 and 2010 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Charter School of the Dunes Inc.'s management. Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charter School of the Dunes, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2014 on our consideration of the Organization's internal control over financial reporting and 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 the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Comer, Nowling And Associates, P. C.

Comer, Nowling And Associates, P.C.

March 26, 2012 except for procedures required under Government Auditing Standards and the Office of Management and Budget Circular A-133 described in the paragraphs above to which date is January 20, 2014

**CHARTER SCHOOL OF THE DUNES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,126,773	\$ 918,648
Accounts receivable:		
State and local tuition support	1,466,312	1,270,202
Grants	196,125	185,060
Prepaid expenses	37,819	28,705
	2,827,030	2,402,615
Total current assets	2,827,030	2,402,615
PROPERTY AND EQUIPMENT:		
Land	424,566	424,566
Leasehold improvements	1,293,372	1,192,847
Furniture and equipment	697,233	650,481
Accumulated depreciation	(1,421,247)	(1,264,789)
	993,924	1,003,105
Total property and equipment	993,924	1,003,105
Total assets	\$ 3,820,954	\$ 3,405,720
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 404,193	\$ 356,729
Refundable advances	4,022	132,253
	408,215	488,982
Total current liabilities	408,215	488,982
LONG-TERM DEBT		
	1,812,131	1,501,026
Total liabilities	2,220,346	1,990,008
UNRESTRICTED NET ASSETS		
	1,600,608	1,415,712
Total liabilities and unrestricted net assets	\$ 3,820,954	\$ 3,405,720

See accompanying notes to financial statements.

**CHARTER SCHOOL OF THE DUNES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
REVENUE AND SUPPORT		
State tuition support	\$ 2,782,420	\$ 2,346,035
Grant revenue	1,106,293	1,334,515
Student fees	17,052	21,879
Interest income	6,517	1,346
Other	31,934	24,347
Total revenue and support	<u>3,944,215</u>	<u>3,728,122</u>
 EXPENSES		
Program services	2,917,527	2,886,458
Management and general	841,792	823,422
Total expenses	<u>3,759,319</u>	<u>3,709,880</u>
 NET INCREASE IN NET ASSETS	184,897	18,242
 NET ASSETS, BEGINNING OF YEAR	<u>1,415,712</u>	<u>1,425,646</u>
 PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>(28,176)</u>
 NET ASSETS, END OF YEAR	<u><u>\$ 1,600,608</u></u>	<u><u>\$ 1,415,712</u></u>

See accompanying notes to financial statements.

**CHARTER SCHOOL OF THE DUNES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Program support</u>	<u>Management & General</u>	<u>Total</u>
OPERATING EXPENSES:			
Salaries and benefits	\$ 2,086,496	\$ 239,118	\$ 2,325,614
Teaching supplies and equipment	173,551	-	173,551
Academic services	109,071	-	109,071
Staff development	27,406	-	27,406
Occupancy	209,022	146,364	355,386
Food service	140,132	-	140,132
School Administration	62,327	409,372	471,699
Depreciation	<u>109,521</u>	<u>46,938</u>	<u>156,458</u>
 Total expenses reported by function	 <u>\$ 2,917,527</u>	 <u>\$ 841,792</u>	 <u>\$ 3,759,319</u>

See accompanying notes to financial statements.

**CHARTER SCHOOL OF THE DUNES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Program support</u>	<u>Management & General</u>	<u>Total</u>
OPERATING EXPENSES:			
Salaries and benefits	\$ 1,928,107	\$ 217,943	\$ 2,146,050
Teaching supplies and equipment	163,771	-	163,771
Academic services	118,071	-	118,071
Staff development	80,533	-	80,533
Occupancy	227,392	169,819	397,211
Food service	142,387	-	142,387
School Administration	119,420	389,898	509,318
Depreciation	<u>106,778</u>	<u>45,762</u>	<u>152,540</u>
 Total expenses reported by function	 <u>\$ 2,886,458</u>	 <u>\$ 823,422</u>	 <u>\$ 3,709,880</u>

See accompanying notes to financial statements.

**CHARTER SCHOOL OF THE DUNES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 184,897	\$ 18,242
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	156,458	152,540
Increase (decrease) in cash from changes in:		
Accounts receivable	(207,175)	(98,203)
Prepaid expenses	(9,114)	(11,888)
Accounts payable and accrued expenses	47,464	(17,146)
Refundable advances	<u>(128,231)</u>	<u>76,677</u>
Net cash provided by operating activities	<u>44,299</u>	<u>120,221</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	<u>(147,278)</u>	<u>(14,481)</u>
Net cash used in investing activities	<u>(147,278)</u>	<u>(14,481)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in accrued interest, long-term	59,250	56,699
Proceeds from State of Indiana Loan	<u>251,854</u>	<u>-</u>
Net cash provided by financing activities	<u>311,104</u>	<u>56,699</u>
NET INCREASE IN CASH	208,124	162,439
CASH, BEGINNING OF YEAR	<u>918,648</u>	<u>756,209</u>
CASH, END OF YEAR	<u><u>\$ 1,126,773</u></u>	<u><u>\$ 918,648</u></u>
Supplemental disclosure:		
Cash paid in interest	<u><u>\$ -</u></u>	<u><u>\$ 4,843</u></u>

See accompanying notes to financial statements.

CHARTER SCHOOL OF THE DUNES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Charter School of the Dunes, Inc. (the "School") is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana. The School operates a public charter school established under Indiana Code 20-24-3-1 and sponsored by Ball State University. The School has entered into a service agreement with American Quality Schools, Inc., a for-profit organization, to provide educational programming, managerial, legal, and financial services to the school.

BASIS OF ACCOUNTING

The financial statements of Charter School of the Dunes have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

TAX STATUS

The School has received a determination letter from the U.S. Treasury Department stating that it qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code as a tax-exempt organization. Accordingly, no accounting for federal and state income taxes is required in the accompanying financial statements.

The Organization recognizes a tax benefit 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 will be the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded.

REVENUE AND SUPPORT

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

ACCOUNTS RECEIVABLE

Accounts receivable relate primarily to activities funded under grants and legislation of 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.

CHARTER SCHOOL OF THE DUNES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CONTRIBUTIONS

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted, net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

PROPERTY AND EQUIPMENT

Purchases of 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 equipment purchases 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	5 to 20 years

Depreciation expense for the years ended June 30, 2011 and 2010 was \$156,458 and \$152,540 respectively.

USE OF 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.

FINANCIAL STATEMENT PRESENTATION

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. A description of the unrestricted, temporarily and permanently restricted net asset classes follows:

Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of the Organization.

CHARTER SCHOOL OF THE DUNES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
FINANCIAL STATEMENT PRESENTATION (continued)

Temporarily restricted net assets represent contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Temporarily restricted net assets also include, pursuant to Indiana law, cumulative appreciation and reinvested gains on permanently restricted net assets, which has not been appropriated by the Board of Directors.

Permanently restricted net assets represent contributions and other inflows of assets whose use by Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

The Organization did not have any temporarily restricted or permanently restricted net assets as of June 30, 2011 and 2010.

SUBSEQUENT EVENTS

Subsequent to June 30, 2011, the School entered into agreements to construct a new school building. The building will be financed through various bonds and tax credits. Closing on these loans took place in December 2011. See Note 9.

The School evaluated subsequent events through March 26, 2012, the date these financial statements were available to be issued.

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable for state education support represent amounts due from the following sources:

As of June 30,:	<u>2011</u>	<u>2010</u>
State of Indiana:		
Tuition support	\$ 1,391,094	\$ 1,198,213
Special education grant	48,943	35,153
NSLP Program	<u>26,275</u>	<u>36,836</u>
Total	<u>\$ 1,466,312</u>	<u>\$ 1,270,202</u>

CHARTER SCHOOL OF THE DUNES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 2 – ACCOUNTS RECEIVABLE (continued)

Tuition support is determined by state law and is dependent upon the geographic location of the school. The tuition is also indexed for poverty data of the students. The payment schedule is likewise determined by state law with tuition payable in equal monthly installments in the calendar year following the start of school. As of June 30, 2011 and 2010, there were also amounts due to the School from local governmental units under the funding formula in effect for 2010 and 2009. Upon revocation or termination of the charter, the payment streams will cease and any unpaid amounts will be applied to the unpaid balance of notes from the Indiana Common School Fund (see Note 3), and then to other entities that had distributed funds to the school.

NOTE 3 – LONG-TERM DEBT

Long-term debt consisted of two notes payable to the Indiana Common School Fund and related accrued interest.

Long-term debt consists of the following as of June 30,:

	<u>2011</u>	<u>2010</u>
Note payable – 4% payable in semi-annual payments of principal and interest. The note matures on January 1, 2027 and is secured by unpaid tuition support distributions (see Note 2).	\$ 1,416,151	\$ 1,416,151
Note payable – 4% payable in semi-annual payments of principal and interest. The note matures on January 1, 2032 and is secured by unpaid tuition support distributions (see Note 2).	<u>251,854</u>	<u>-</u>
Long-term debt before accrued interest	1,668,005	1,416,151
Accrued interest due July 1, 2013	<u>144,126</u>	<u>84,875</u>
Total long-term debt	<u>\$ 1,812,131</u>	<u>\$ 1,501,026</u>

CHARTER SCHOOL OF THE DUNES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 3 – LONG-TERM DEBT (continued)

In 2009, the Indiana Common School Fund granted a two-year moratorium on loan payments. The moratorium was subsequently extended another 2 years. Payments are to resume on July 1, 2013.

Year ended June 30:	
2012	\$ -
2013	-
2014	100,644
2015	100,644
2016	100,644
Thereafter	<u>1,366,073</u>
	<u>\$ 1,668,005</u>

NOTE 4 – LEASES

The School has executed certain operating leases relating to its facilities and equipment. The School leases its education facility from Gary Art Works, Inc. under a sublease agreement. The sublease provides for monthly rent payments of \$2,500 through June 30, 2013. The School also leases modular classrooms to supplement the facility. The modular classroom lease expires August 31, 2011 and requires monthly rent payments of \$16,000. Rent expense under operating leases for the years ended June 30, 2011 and 2010 were \$236,593 and \$237,826 respectively.

Future minimum obligations under non-cancellable operating leases as of June 30, 2011 were as follows:

Year ended June 30:	
2012	\$ 236,472
2013	76,472
2014	43,266

NOTE 5 - CONCENTRATION OF CREDIT RISK AND MAJOR SOURCES OF REVENUE

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.

CHARTER SCHOOL OF THE DUNES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 5 - CONCENTRATION OF CREDIT RISK AND MAJOR SOURCES OF REVENUE (continued)

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.

The School maintains cash balances at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2010 and 2011 the total uninsured balances in the accounts were \$814,440 and \$537,116 respectively.

NOTE 6 – LONG-LIVED ASSETS

Long-lived assets held and used by the Organization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

NOTE 7 – REFUNDABLE ADVANCES

The School has been awarded grants from the Indiana Department of Education to provide educational instruction. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. At June 30, 2011 and 2010, the School had refundable grant advances in excess of expenditures of \$4,022 and \$132,253 respectively.

NOTE 8 – RETIREMENT PLAN

Prior to September, 2009, retirement benefits for school employees were provided through a 401(k) plan offered by Mosaica Education, Inc. Under the plan, that School matched 25% of any employee contributions up to a maximum of 4% of the employee's gross salary. Employees vest in the company match over a period of five years. Substantially all employees are eligible to participate. The Plan incurred no retirement plan expense through September 30, 2009. Subsequent to August 2009, all eligible school employees may participate in a 403(b) plan offered by American Quality Schools, Inc. Under the 403(b) plan, the 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. Neither the School nor American Quality Schools makes any contributions to the 403(b) plan. After December 31, 2010, all noncertified School employees are eligible to participate in the Indiana Public Employee Retirement (PERF) plan and all certified employees are eligible to participate in the Teacher' Retirement Fund (TRF) plan.

CHARTER SCHOOL OF THE DUNES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 8 – RETIREMENT PLAN (continued)

PUBLIC EMPLOYEES' RETIREMENT FUND. The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Phone (888) 526-1687

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS. Total contributions to the plan for 2011 and 2010 were \$30,700 and \$0 respectively.

TEACHERS' RETIREMENT FUND. The Indiana Teachers' Retirement Fund (TRF) is a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

CHARTER SCHOOL OF THE DUNES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 8 – RETIREMENT PLAN (continued)

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the TRF plan as a whole and for its Participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Phone (888) 286-3544

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana. Total contributions to the plan for 2011 and 2010 were \$65,594 and \$0 respectively.

NOTE 9 – COMMITMENTS

The School operates under a charter granted by Ball State University. As the sponsoring organization, Ball State University exercises certain oversight responsibilities. Under this charter, the School has agreed to pay to Ball State University an annual administrative fee equal to 3% of state tuition support. The charter remains in effect until June 30, 2014, and is renewable thereafter by mutual consent. Payments under this agreement for the years ended June 30, 2011 and 2010 were \$80,947 and \$72,020 respectively.

During the year ended June 30, 2010, the School contracted with American Quality Schools, Inc., a for-profit organization incorporated in the State of Illinois, to provide management, administrative and educational programming services. Under the terms of the agreement, the School has agreed to pay an amount equal to 6% of revenues, as defined in the contract, through June 30, 2010 and 7% through the remainder of the contract, for such services. The contract was effective in August 2009 and expires August 1, 2012.

All School personnel are employed by American Quality Schools, Inc. Under the agreement, the School reimburses American Quality Schools, Inc. for personnel costs, including life, health, disability, and retirement benefits. This agreement remains in effect so long as the management agreement is in effect.

The School entered into contracts for the financing and construction of a new building. Construction is estimated to begin in June 2012 with an estimated completion date of July 2013 with an estimated cost of the project is twelve million dollars and is expected to be financed, in part, through Quality School Construction bonds and New Market Tax Credits.

CHARTER SCHOOL OF THE DUNES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 10 - PRIOR PERIOD ADJUSTMENT

In 2009 the Indiana Common School Fund granted a two year moratorium on loan payments and subsequently extended that period two additional years. Payments on Indiana Common School Loans are scheduled to resume on July 1, 2013. While payments on these loans were deferred, interest on the loans continued to accrue at the loan rate. The School did not recognize interest expense incurred on the loan during the first half of the moratorium period. As of June 30, 2009, unpaid interest on the Indiana Common School Loan was \$28,176. This amount has been treated as a prior period adjustment. The 2010 financial statements have been restated to reflect additional accrued interest of \$56,699.

SUPPLEMENTARY INFORMATION

**CHARTER SCHOOL OF THE DUNES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

FEDERAL GRANTOR AGENCY Passthrough Agency Cluster Title/Program Title	Federal CFDA Number	Grant or Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the Indiana Department of Agriculture			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 25,144
National School Lunch Program	10.555		<u>128,495</u>
Subtotal for Child Nutrition Cluster passed through Department of Agriculture			<u>153,639</u>
Child and Adult Care Food Program (CACFP)	10.558		<u>6,419</u>
Total U.S. Department of Agriculture			<u>160,058</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through the Indiana Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	09-10	12,826
Title I Grants to Local Educational Agencies	84.010	10-11	<u>448,133</u>
ARRA-Title I Grants to Local Educational Agencies			
Recovery Act	84.389		<u>137,104</u>
Subtotal for Title I, Part A Cluster passed through Department of Education			<u>598,063</u>
Special Education Cluster			
Special Education - Grants to States	84.027		64,420
ARRA-Special Education Grants to States			
Recovery Act	84.391		<u>4,135</u>
Subtotal for Special Education Cluster Cluster passed through Department of Education			<u>68,555</u>
Title II, Part A			
Improving Teacher Quality State Grant	84.367		<u>24,221</u>
Total U.S. Department of Education			<u>690,839</u>
Total Expenditures of Federal Awards			<u><u>\$ 850,897</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

CHARTER SCHOOL OF THE DUNES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

Note 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 under programs of the federal government for the year ended June 30, 2011. 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 Charter School of the Dunes, it is not intended to and does not present the financial position, changes in net assets or cash flows of Charter School of the Dunes

Note 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. Pass-through entity identifying numbers are presented where available.

**CHARTER SCHOOL OF THE DUNES
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2011**

Section II – Financial Statement Findings

FS-2010-1 – Schedule of Federal Financial Assistance

Condition: Charter School of the Dunes Officials failed to provide a Schedule of Federal Financial Assistance for the school years 2008/2009 and 2009/2010. Adequate internal control over reporting of Federal awards requires that auditees be aware of the applicable requirements. The presented Schedule of Expenditures of Federal Awards, with the approval of the Charter School of the Dunes Officials was prepared based upon the records.

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

"Auditee Responsibilities. The auditee shall:

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

§___.310 Financial statements states:

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

Recommendation: The State Board of Accounts recommended that Charter School of the Dunes Officials implement procedures to adequately identify and accurately report all Federal award programs.

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

Auditor's Update: Management did not provide a schedule of expenditure of federal awards to us for the audit of the schedule for the year ended June 30, 2011. See current year finding FA-2011-01.

**CHARTER SCHOOL OF THE DUNES
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2011**

Section III – Federal Award Findings and Questioned Costs

FA-2010-2 – Financial Reporting

U.S. Department of Education

Title I Grants to Local Educational Agencies, ARRA State Fiscal Stabilization Fund (SFSF)

Education State Grants

CFDA Numbers 84.010, 84.394

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

	Reported 6/30/10 Ledger Balance	Actual 6/30/10 Ledger Balance	Difference
Title I Quarterly Monitoring Report	\$ (16,888.87)	\$ 34,987.28	\$ 51,876.15
Title I Final Annual Expenditure Report	28,412.98	34,987.28	6,574.30

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

Criteria: Circular A-133 _____.300 states in part: "Auditee Responsibilities. The auditee shall: . . .

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

Failure to adhere to this requirement could cause the Charter School of the Dunes to become ineligible to receive Federal funds.

Recommendation: The State Board of Accounts recommended that the Charter School of the Dunes implement procedures to ensure that financial information is available to support the required reports.

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

The auditors were provided with reconciliation of the Title I Quarterly Monitoring Report ending cash balance variance identifying the reporting errors. The material error was due to the transfer of FY09 Title I Carryover funds were not identified as received funding on the Title I Quarterly Monitoring Report. The amount listed as the actual ledger balance at 6/30/10 was accurate as provided on the reconciliation report.

**CHARTER SCHOOL OF THE DUNES
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2011**

FA-2010-2 – Financial Reporting

U.S. Department of Education

Title I Grants to Local Educational Agencies, ARRA State Fiscal Stabilization Fund (SFSF)

Education State Grants

CFDA Numbers 84.010, 84.394 (continued)

The errors were identified when the Title I Final Annual Expenditure Report was prepared and filed beyond the date for amending the Title I Quarterly Monitoring Report.

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

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

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

Auditor’s Update: During our audit of the schedule of expenditure of federal awards and related internal control and compliance testing of major programs, we did not identify any instances where financial reporting could not be reconciled to actual reports submitted.

FA-2010-3 – Cash Management

U.S. Department of Education

Title I, ARRA Title I Grants to Local Educational Agencies, Title I Grants to Local Educational Agencies – School Improvement Grant

CFDA Numbers 84.010, 84.394

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

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

**CHARTER SCHOOL OF THE DUNES
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2011**

FA-2010-3 – Cash Management

U.S. Department of Education

Title I, ARRA Title I Grants to Local Educational Agencies, Title I Grants to Local Educational Agencies – School Improvement Grant

CFDA Numbers 84.010, 84.394 (continued)

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

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

Criteria: EDGAR § 80.20 states in part: ". . .

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

(7) Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

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

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

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

Auditor's Update: During our audit of the schedule of expenditure of federal awards and related internal control and compliance testing we noted that draws of major program funds were made on a reimbursement basis.

**CHARTER SCHOOL OF THE DUNES
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2011**

FA-2010-4 – Capital Asset Records and Controls

U.S. Department of Education

Title I, ARRA Title I Grants to Local Educational Agencies, Title I Grants to Local Educational Agencies – School Improvement Grant

CFDA Numbers 84.010, 84.394

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

Criteria: EDGAR 80.32 states in part:

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

Recommendation: The State Board of Accounts recommended that Charter School of the Dunes Officials establish procedures to ensure that equipment purchased with federal funds is accounted for in accordance with federal guidelines.

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

Auditor's Update: During our audit of the schedule of expenditure of federal awards and related internal control and compliance testing, we noted that the School does maintain records of capital assets for financial reporting purposes, but does not routinely inventory or identify capital property purchased with federal funds. See current year finding FA-2011-03.

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

To the Board of Directors
Charter School of the Dunes
Lake County, Indiana

We have audited the financial statements of Charter School of the Dunes (a nonprofit organization), as of and for the year ended June 30, 2011, and have issued our report thereon dated March 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Charter School of the Dunes is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Charter School of the Dunes's internal control over financial reporting as a basis for designing our auditing procedures 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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting 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 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as FS-2011-01, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charter School of the Dunes's financial statements and the schedule are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement or Schedule 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*.

This report is intended solely for the information and use of the board of directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Comer, Nowling And Associates, P.C.

Comer, Nowling And Associates, P.C.

January 20, 2014

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

To the Board of Directors
Charter School of the Dunes
Lake County, Indiana

Compliance

We have audited Charter School of the Dunes's (a nonprofit organization) compliance with the types of compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on Charter School of the Dunes's major federal programs for the year ended June 30, 2011. Charter School of the Dunes's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Charter School of the Dunes's management. Our responsibility is to express an opinion on Charter School of the Dunes's compliance based on our audit.

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

In our opinion, Charter School of the Dunes complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *OMB Circular A133* and which are described in the accompanying schedule of findings and questioned costs as items FA-2011-01, FA-2011-02, and FA-2011-03.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that we consider to be material, as defined above. However, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies and are described in the accompanying schedule of findings and questioned costs as items FA-2011-01 and FA-2011-02. A significant deficiency in internal control over compliance is a deficiency or 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.

Charter School of the Dunes responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Charter School of the Dunes responses and, accordingly we express no opinion on the responses.

This report is intended solely for the information and use of management, board of directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Comer, Nowling And Associates, P.C.

Comer, Nowling And Associates, P.C.
January 20, 2014

**CHARTER SCHOOL OF THE DUNES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2011**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified? Yes No

Type of auditor’s report issued: Unqualified

Any audit findings disclosed required to be reported in
Accordance with Section 510(a) of Circular A-133 Yes No

Program tested as major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010*	U.S. Dept. of Education, Title I Grants to Local Educational Agencies
84.389*	U.S. Dept. of Education, Title I Grants to Local Educational Agencies - ARRA

* Denotes a program cluster. A cluster of programs is treated as a single program for the purpose of meeting the audit requirements of *OMB Circular A-133*.

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

Auditee qualified as low-risk auditee? Yes No

**CHARTER SCHOOL OF THE DUNES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

Section II – Financial Statement Findings

FS-2011-01—Material Adjusting Entries

Condition: During the course of our audit of the Organization’s financial statements, we proposed material journal entries to properly recognize revenue and accrue expenses.

Criteria: Misstatement of the Organization’s financial statements should be detected and prevented by the Organization’s internal control over financial reporting.

Cause: Internal controls of the Organization were not adequately designed to detect and correct the material misstatement of accounts receivable and deferred revenue on a timely basis.

Effect: A journal entry was proposed to increase accounts receivable and grant revenue by \$126,874 as of June 30, 2011. Additionally, journal entries were proposed resulting in increases in accrued interest and interest expense by \$59,250.

Recommendation: We recommend periodic review of all Statement of Financial Position accounts to identify any misstatements due to errors of this nature.

Management’s Corrective Action: We have put controls in place to periodically review all Statement of Financial Position accounts to identify any misstatements due to errors of this nature.

Section III – Federal Award Findings and Questioned Costs

FA-2011-01 – Schedule of Expenditures of Federal Awards Not Prepared

U.S. Department of Education

Title I Grants to Local Educational Agencies, ARRA Title I Grants to Local Educational Agencies

CFDA 84.010, 84.389, Passed Through Indiana Department of Education

Condition: The Organization did not prepare a schedule of expenditures of Federal awards for the year ended June 30, 2011.

Criteria: OMB Circular A-133, Subpart C §___.300 paragraph (d) states:

“ The auditee shall prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.

Cause: The Organization did not implement a procedure and internal controls to ensure preparation of the schedule of expenditures of Federal awards.

Effect: The Organization is not in compliance with OMB Circular A-133 for the year ended June 30, 2011.

**CHARTER SCHOOL OF THE DUNES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

FA-2011-01 – Schedule of Expenditures of Federal Awards Not Prepared (continued)

Recommendation: We recommend improving accounting records to facilitate preparation of schedule of expenditures of Federal awards.

Management's Corrective Action: We have implemented procedures to ensure preparation of the schedule of expenditures of Federal awards.

**FA-2011-02 – Failure To Complete Audit In Accordance With The Requirements of OMB Circular A-133
U.S. Department of Education
Title I Grants to Local Educational Agencies, ARRA Title I Grants to Local Educational Agencies
CFDA 84.010, 84.389, Passed Through Indiana Department of Education**

Condition: An audit of the Organization's financial statements and compliance with major program requirements for the year ended June 30, 2011 was not conducted within the time frame required by OMB Circular A-133.

Criteria: OMB Circular A-133, Subpart B § ___.200 paragraph (a) states:

“ Non-Federal entities that expend \$500,000 or more in a year in federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part.” Additionally OMB Circular A-133 requires annual audits except in certain circumstances in which case biennially. In either case, the audit must be completed within 9 months of the audit period.

Cause: The Organization had biennial audits completed through June 30, 2010 by the Indiana State Board of Accounts. As of June 2012, the Indiana State Board of Accounts made the decision to require the audits of Charter Schools to be conducted by private examiners and produced guidelines for such audits which were released in July 2012. The guidelines were silent on the requirements or responsibility for the audits of the year ended June 30, 2011. Clarification that audits of the charter schools for the year ended June 30, 2011 were to be conducted by private examiners was not issued until early 2013, causing the audits of the year ended June 30, 2011 to be late.

Effect: The Organization is not in compliance with OMB Circular A-133 for the year ended June 30, 2011.

Recommendation: Since the Organization now has a completed audit for the year ended June 30, 2011 no formal recommendation is necessary.

Management Corrective Action: We have now completed the audit for year ended June 30, 2011 so no further action is necessary.

**CHARTER SCHOOL OF THE DUNES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2011**

**FA-2011-03 Failure To Complete Inventory Of Assets Purchased With Federal Funds
U.S. Department of Education
Title I Grants to Local Educational Agencies, ARRA Title I Grants to Local Educational Agencies
CFDA 84.010, 84.389, Passed Through Indiana Department of Education**

Condition: The Organization maintains a record of capital assets for accounting purposes; however, the Organization does not routinely conduct a physical inventory of its capital assets as a means to verify its asset records.

Criteria: Per OMB Circular A-110, paragraph 215.34(f)(3), a physical inventory of equipment shall be taken and the results reconciled to the equipment records at least once every two years. Additionally, Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools, Part 15 requires that a complete inventory shall be taken for good internal control and for verifying account balanced carried in the accounting records.

Cause: The Organization has not implemented procedures to conduct physical counts of property in accordance with the above referenced requirements.

Effect: The Organization is not in compliance with the above referenced policies.

Recommendation: The Organization should develop and implement procedures to conduct physical inventories of capitalized property at least biennially.

Management's Corrective Action: We now conduct a physical inventory of capitalized property biennially.

CHARTER SCHOOL OF THE DUNES, INC.
OTHER REPORTS
Year Ended June 30, 2011

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

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

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